Budget 2015 2016

Assumptions and Schedules

NOVA SCOTIA

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Supplementary to the 2015–2016 Budget

Budgetary Information

Budget Summary

Schedule 1A presents a summary of the province's budgetary position. The province's deficit for 2014–2015 is forecasted to be $102.1 million, which is $176.8 million (63.4 per cent) lower than the original budget deficit estimate.

Positive prior-year adjustments of $115.4 million were a significant boost to revenue, as were Corporate Income Taxes, which were up by $49.2 million or 11.2 per cent from the 2014–2015 Budget Estimates. This is due to increases in the levels of national corporate taxable income based upon federal estimates as well as an increase in the province's projected share. Departmental expenses were $22.7 million (0.3 per cent) lower as a result of mid-year departmental spending adjustments.

The province will have an estimated deficit of $97.6 million in 2015–2016, reflecting government's commitment to taking measured steps towards fiscal sustainability. Departmental expenditures are $8.9 billion, which is a 0.7 per cent increase relative to 2014–2015.

Budget 2015-2016 reflects government's business plan and the core responsibilities of government in ensuring the delivery of services for Nova Scotians:

- Early childhood development and education
- Promotion of health and wellness and delivery of health care services
- Public infrastructure and transportation
- Protection of the environment, public health and public safety
- Enforcement of provincial laws, rules and regulations
- Protection of the most vulnerable and maintaining a social safety net
- Prudent fiscal management and accountability for the financial affairs of the province, including the effective and efficient use of public resources
- Promotion of the social and economic well-being of all citizens.

Schedule 1A Budget Summary – Statement of Operations

	2014-2015 Estimate	2014-2015 Forecast	2015-2016 Estimate
General Revenue Fund			
Revenues			
Ordinary Revenue	8,703,762	8,888,673	**9,036,661**
Ordinary Recoveries	521,983	529,278	**531,238**
Net Income from Government Business Enterprises	340,391	344,839	**352,109**
	9,566,136	**9,762,790**	**9,920,008**
Expenses			
Departmental Expenses	8,851,640	8,828,956	**8,910,013**
Refundable Tax Credits	115,566	127,052	**150,968**
Pension Valuation Adjustment	90,505	78,769	**90,654**
Debt Servicing Costs	877,983	862,611	**872,612**
	9,935,694	**9,897,388**	**10,024,247**
Consolidation and Accounting Adjustments for Government Units			
General Revenue Fund Consolidation Adjustments	93,858	55,335	**11,435**
Special Purpose Funds	(720)	(1,056)	**(1,769)**
Other Organizations	(2,536)	(21,821)	**(3,002)**
	90,602	**32,458**	**6,664**
Provincial Surplus (Deficit)	**(278,956)**	**(102,140)**	**(97,575)**

Fiscal Plan

The four-year fiscal plan (Schedule 1B) will achieve government's business plan goal of "balancing the budget and achieving a sustainable cost of government by 2017–2018".

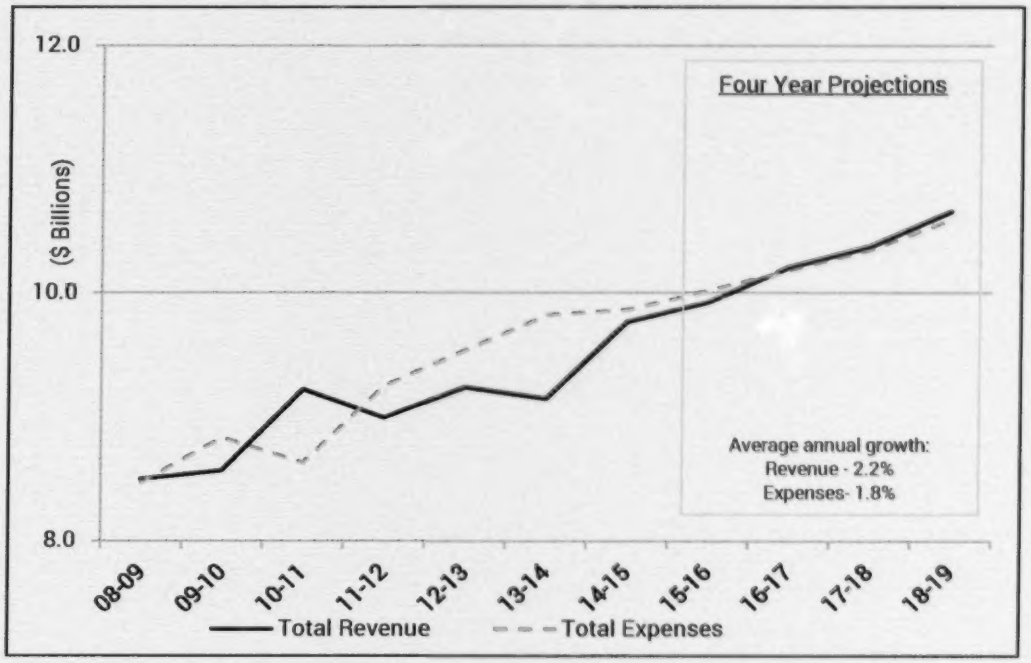
Schedule 1B Fiscal Projections 2015–2016 to 2018–2019

	2014-2015 Estimate	2014-2015 Forecast	2015-2016 Estimate	2016-2017 Estimate	2017-2018 Estimate	2018-2019 Estimate
General Revenue Fund						
Revenue						
Ordinary Revenue	8,703.7	8,888.7	9,036.7	9,312.2	9,484.1	9,775.0
Ordinary Recoveries	522.0	529.3	531.2	534.0	534.5	536.6
Net Income Government Business Enterprises	340.4	344.8	352.1	356.0	350.6	341.6
	9,566.1	9,762.8	9,920.0	10,202.2	10,369.3	10,653.3
Expenses						
Departmental Expenses	8,851.6	8,829.0	8,910.0	9,078.5	9,213.6	9,433.6
Refundable Tax Credits	115.6	127.1	151.0	134.2	135.4	136.5
Pension Valuation Adjustment	90.5	78.8	90.7	101.6	111.3	115.8
Debt Servicing Costs	878.0	862.6	872.6	872.8	891.2	908.7
	9,935.7	9,897.4	10,024.2	10,187.0	10,351.4	10,594.6
Consolidation and Accounting Adjustments for Govemmental Units	90.6	32.5	6.7	7.4	7.4	7.4
Provincial Surplus (Deficit)	(279.0)	(102.1)	(97.6)	22.6	25.3	66.1
Net Debt	15,005	14,961	15,118	15,295	15,311	15,283
Nominal GDP	40,112	40,548	41,646	43,047	44,225	45,773
Debt to GDP Ratio	37.4%	36.9%	36.3%	35.5%	34.6%	33.4%

Budget 2015–2016 is projecting balanced budgets from fiscal year 2016–2017 onwards. While economic and revenue growth remain modest, government is achieving expenditure restraint by focusing on the core responsibilities of government. Through program review and structural changes, government is using a long-term perspective to establish priorities.

For 2015–2016, revenue is estimated to grow by 3.7 per cent compared to the 2014–2015 estimate, while Total Expenses are projected to increase by 0.9 per cent. Average annual revenue growth is estimated to be 2.2 percent over the four-year fiscal period (Chart 1A), with anticipated expenses growing at 1.8 per cent on an average annual basis, which will allow the province to be in a surplus position by 2016–2017.

Chart 1A Projected Revenues and Expenses 2015–2016 to 2018–2019



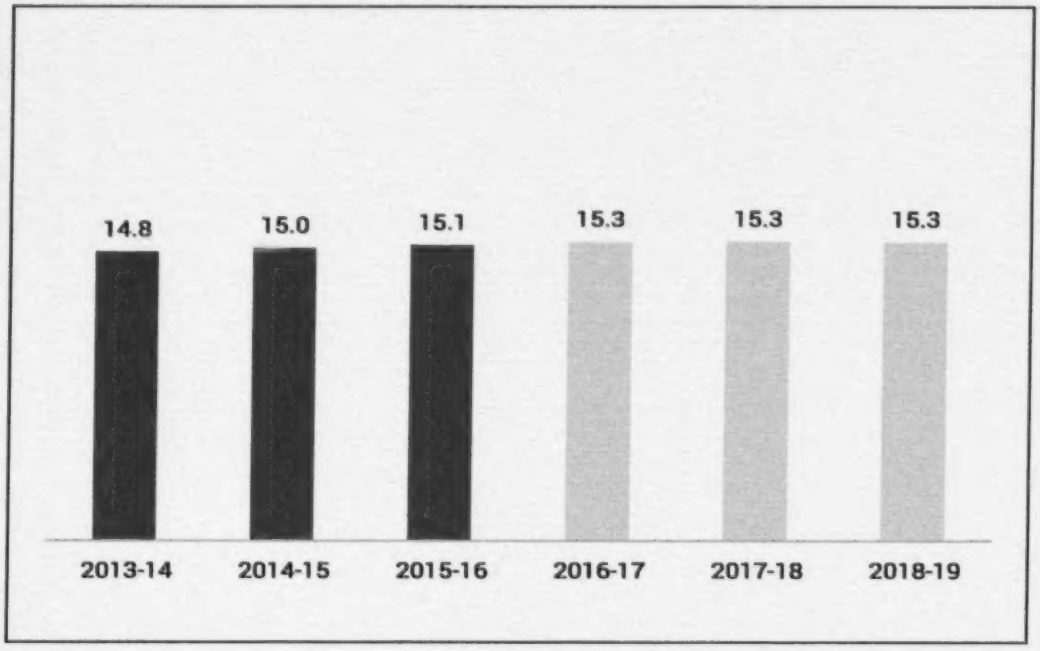
The growth rate of future revenue is anticipated to slow down, slowing to 1.6 per cent in 2017–2018. Current prospects for revenue growth are related mainly to three sources—personal income tax, corporate income tax, and sales tax (HST). All three are heavily dependent upon an improving economy.

Growth in federal transfer revenues will remain relatively flat for the foreseeable future, primarily as a result of the province's declining share of the national population and lower revenues for the offshore accord and cumulative best-of guarantee payments.

Debt

Nova Scotia's net debt is projected to be $15.1 billion at year end 2015–2016, up from $15.0 billion at year end 2014–2015 (Chart 1B). The debt has increased as a result of the budgetary deficit and net capital spending. The four-year fiscal plan is projecting a levelling of net debt to $15.3 billion from 2016–2017 onwards as a result of future budget surpluses and restrained capital spending.

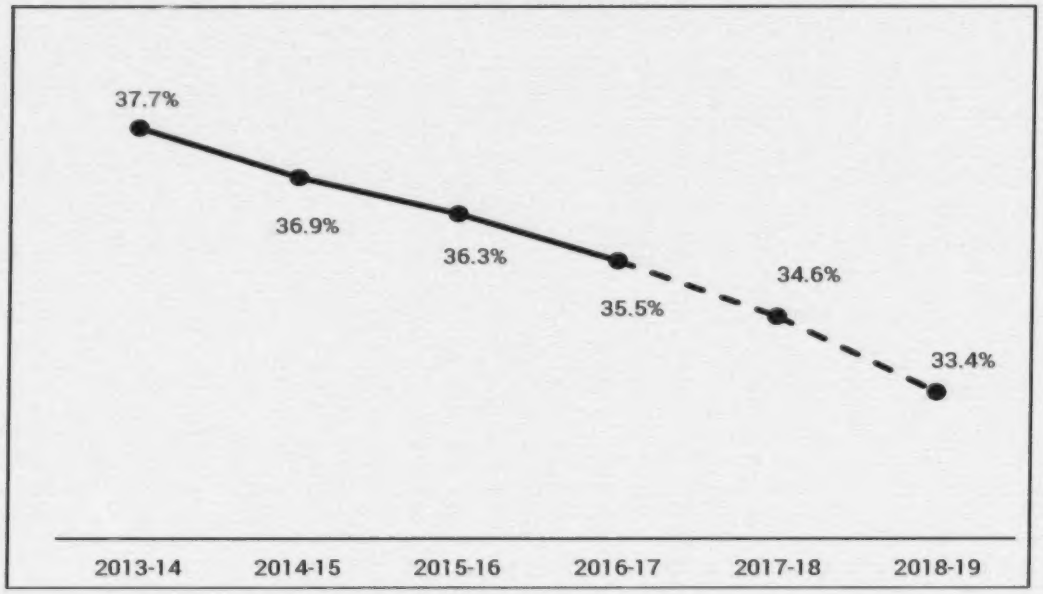
Chart 1B Projected Net Debt
(billions)



The ratio of net debt to gross domestic product (GDP) hit a recent peak of 37.7 per cent on March 31, 2014. This ratio, regarded as the most comprehensive indicator of the province's financial position, is expected to improve throughout the fiscal plan, reaching 33.4 per cent by 2018–2019.

The One Nova Scotia Commission Report's goal for the province's fiscal health is a net debt to GDP ratio of 30 per cent by 2024.

Chart 1C Ratio of Net Debt to Gross Domestic Project



Economic Outlook

Nova Scotia has had modest economic growth in 2014 estimated at 3.6 per cent in nominal terms, and 1.6 per cent in real gross domestic product growth. A key driver has been a 21.7 per cent increase in merchandise exports to other countries, across all sectors, but fuelled by natural gas. However, labour markets, retail spending, and residential investment remained weak in Nova Scotia.

In 2015, the Budget economic outlook expects real GDP growth to reach 1.7 per cent as major project investments get underway (construction of the Nova Centre, vessel construction at the Halifax Shipyard, and re-decking of the Macdonald Bridge). Export growth is not expected to continue in 2015 as falling natural gas output offsets non-energy export growth fuelled by continuing recovery in the US. With weaker price inflation, nominal growth is expected to be 2.7 per cent in 2015.

In 2016, major project investment continues to be the driver of growth, particularly with a full year of vessel construction at the shipyard. Real GDP growth is forecasted to be 1.5 per cent while nominal growth rises to 3.4 per cent.

Provincial Priorities

Based on the OneNS Commission's recommendations, government's business plan has adopted four long-term priorities:

- fiscal sustainability
- economic growth
- education
- addressing and adapting to demographic challenges.

Going forward government is continuing to make structural changes, streamlining operations, eliminating duplication and waste, and focusing government on core programs and services, while encouraging the private sector to lead economic growth. Government will take an ongoing long-term approach to tax changes to diversify the tax base, making revenue more sustainable to ensure that government can provide essential services.

Financial Statistics

The following schedules and charts present more detail on revenues by source, total expenses and the estimated value of tax credits, rebates and tax expenditures.

Total Revenue from all provincial sources including Ordinary Recoveries and Net Income from Government Business Enterprises contributes 66.8 per cent of all revenue in 2015–2016, and the provincial share is projected to increase to 67.9 per cent by 2018-2019. Revenue from federal sources is anticipated to be relatively flat with an estimated average annual growth of 1.2 per cent between 2015-2016 and 2018-2019, and a share of 32.1 per cent of revenues by 2018-2019.

Schedule 1E (Estimated Value of Tax Credits, Rebates and Tax Expenditures) includes the estimated impact of tax system changes in Budget 2015-2016, such as the elimination of the Healthy Living Tax Credit and the introduction of the Capital Investment Tax Credit.

Schedule 1C Revenues By Source
($ thousands)

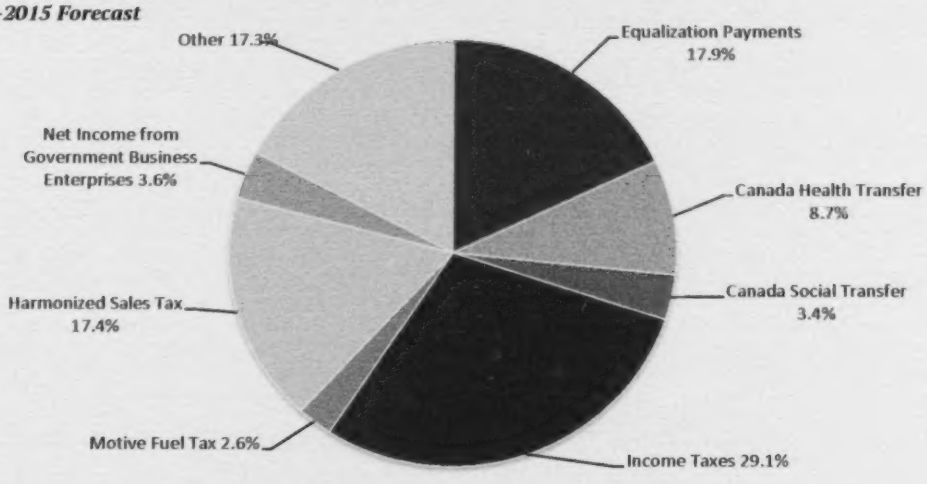
General Revenue Fund: Revenues	Actual 2011-2012 (as restated)	Actual 2012-2013 (as restated)	Actual 2013-2014	Forecast 2014-2015	Estimate 2015-2016
Ordinary Revenue - Provincial Sources					
Tax Revenue:					
Personal Income Tax	2,057,592	2,142,547	2,192,826	2,365,684	2,524,962
Corporate Income Tax	416,665	429,493	425,894	490,616	493,193
Harmonized Sales Tax	1,598,236	1,648,664	1,660,056	1,701,812	1,761,253
Motive Fuel Tax	250,186	243,446	246,800	252,121	262,276
Tobacco Tax	208,631	206,287	217,229	206,079	217,792
Other Tax Revenue	179,064	150,432	161,581	154,585	158,855
	4,710,374	4,820,869	4,904,386	5,170,897	5,418,331
Other Provincial Revenue:					
Registry of Motor Vehicles	117,084	113,434	120,506	123,726	126,949
Royalties - Petroleum	117,955	22,748	20,732	43,292	19,405
Other Provincial Sources	129,155	135,467	139,347	141,622	142,609
Offshore Licenses Forfeitures	—	100	100	—	—
TCA Cost Shared Revenue - Provincial Sources	3,433	9,131	16,953	6,463	1,750
Other Fees and Charges	70,842	68,679	59,996	59,813	63,176
Prior Years' Adjustments - Provincial Sources	(63,589)	57,667	(258,483)	107,080	—
Gain on Disposal of Crown Assets	2,144	15,389	4,631	—	—
	377,024	422,615	103,782	481,996	353,889
Investment Income:					
Interest Revenues	82,011	76,251	77,093	72,703	79,031
Sinking Fund Earnings	106,768	111,146	111,470	105,115	99,549
	188,779	187,397	188,563	177,818	178,580
Total - Provincial Sources	**5,276,177**	**5,430,881**	**5,196,731**	**5,830,711**	**5,950,800**
Ordinary Revenue - Federal Sources					
Equalization Payments	1,407,242	1,578,829	1,718,183	1,750,653	1,768,921
Canada Health Transfer	759,934	795,017	829,861	852,161	896,863
Canada Social Transfer	315,916	322,957	327,379	334,007	341,579
Offshore Accord Offset Payments	167,755	146,059	89,461	64,481	36,779
Crown Share	30,053	12,916	4,577	21,083	7,437
Other Federal Sources	22,932	18,262	15,300	3,877	2,319
TCA Cost Shared Revenue - Federal Sources	38,995	24,470	22,485	23,414	31,963
Prior Years' Adjustments - Federal Sources	(436)	(840)	3,212	8,286	—
Total - Federal Sources	**2,742,391**	**2,897,670**	**3,010,458**	**3,057,962**	**3,085,861**
Total - Ordinary Revenue	**8,018,568**	**8,328,551**	**8,207,189**	**8,888,673**	**9,036,661**
Ordinary Recoveries -					
Provincial Sources	293,886	303,963	322,533	322,458	317,269
Federal Sources	306,963	247,434	262,065	206,820	213,969
Total - Ordinary Recoveries	**600,849**	**551,397**	**584,598**	**529,278**	**531,238**
Net Income from Government Business Enterprises					
Nova Scotia Liquor Corporation	221,454	226,386	228,246	224,104	228,229
Nova Scotia Provincial Lotteries and Casino Corporation	134,501	113,418	108,991	106,800	111,300
Halifax-Dartmouth Bridge Commission	11,615	11,640	12,285	9,624	11,607
Highway 104 Western Alignment Corporation	1,800	1,956	1,640	4,311	973
QE2 Health Sciences	—	955	95	—	—
	369,370	**354,355**	**351,257**	**344,839**	**352,109**
Total - Revenues	**8,988,787**	**9,234,303**	**9,143,044**	**9,762,790**	**9,920,008**

Schedule 1C Revenues By Source *(continued)*
(as a percentage of Total Revenue)

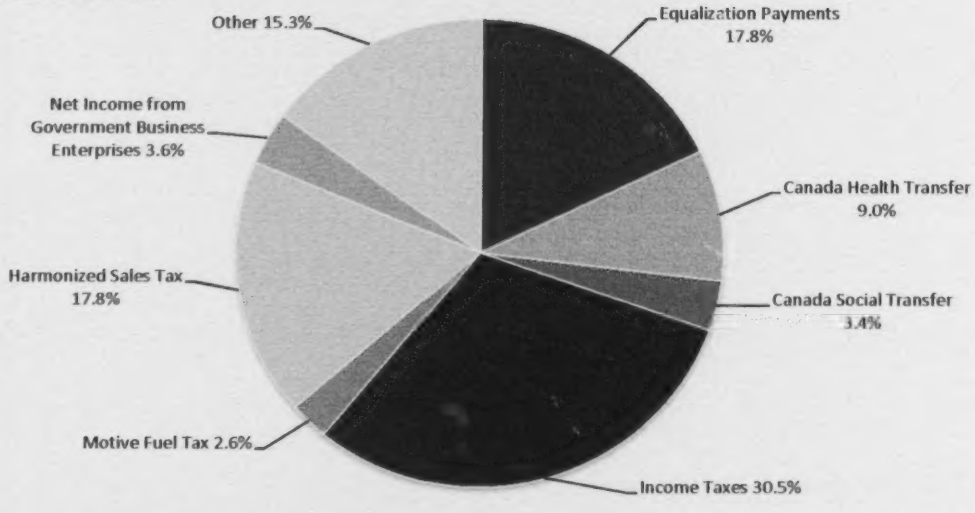
General Revenue Fund: Revenues	Actual 2011-2012 (as restated)	Actual 2012-2013 (as restated)	Actual 2013-2014	Forecast 2014-2015	Estimate 2015-2016
Ordinary Revenue - Provincial Sources					
Tax Revenue:					
Personal Income Tax	22.9%	23.2%	24.0%	24.2%	25.5%
Corporate Income Tax	4.6%	4.7%	4.7%	5.0%	5.0%
Harmonized Sales Tax	17.7%	17.9%	18.2%	17.4%	17.8%
Motive Fuel Tax	2.8%	2.6%	2.7%	2.6%	2.6%
Tobacco Tax	2.3%	2.2%	2.5%	2.1%	2.2%
Other Tax Revenue	2.0%	1.6%	1.8%	1.6%	1.6%
	52.3%	52.2%	53.7%	52.9%	54.7%
Other Provincial Revenue:					
Registry of Motor Vehicles	1.3%	1.2%	1.3%	1.3%	1.3%
Royalties - Petroleum	1.3%	0.2%	0.2%	0.4%	0.2%
Other Provincial Sources	1.4%	1.5%	1.6%	1.5%	1.4%
Offshore Licenses Forfeitures	---	0.0%	0.0%	---	---
TCA Cost Shared Revenue - Provincial Sources	0.0%	0.1%	0.2%	0.1%	0.0%
Other Fees and Charges	0.8%	0.7%	0.7%	0.6%	0.6%
Prior Years' Adjustments - Provincial Sources	-0.7%	0.6%	-2.8%	1.1%	---
Gain on Disposal of Crown Assets	0.0%	0.2%	0.1%	---	---
	4.1%	4.6%	1.2%	5.0%	3.5%
Investment Income:					
Interest Revenues	0.9%	0.8%	0.8%	0.7%	0.8%
Sinking Fund Earnings	1.2%	1.2%	1.2%	1.1%	1.0%
	2.1%	2.0%	2.0%	1.8%	1.8%
Total - Provincial Sources	**58.5%**	**58.8%**	**56.9%**	**59.7%**	**60.0%**
Ordinary Revenue - Federal Sources					
Equalization Payments	15.7%	17.1%	18.8%	17.9%	17.8%
Canada Health Transfer	8.5%	8.6%	9.1%	8.7%	9.0%
Canada Social Transfer	3.5%	3.5%	3.6%	3.4%	3.4%
Offshore Accord Offset Payments	1.9%	1.6%	1.0%	0.7%	0.4%
Crown Share	0.3%	0.1%	0.1%	0.2%	0.1%
Other Federal Sources	0.3%	0.2%	0.2%	0.0%	0.0%
TCA Cost Shared Revenue - Federal Sources	0.4%	0.3%	0.2%	0.2%	0.3%
Prior Years' Adjustments - Federal Sources	0.0%	0.0%	0.0%	0.1%	---
Total - Federal Sources	**30.6%**	**31.4%**	**32.9%**	**31.2%**	**31.0%**
Total - Ordinary Revenue	**89.1%**	**90.2%**	**89.8%**	**91.0%**	**91.0%**
Ordinary Recoveries -					
Provincial Sources	3.3%	3.3%	3.5%	3.3%	3.2%
Federal Sources	3.4%	2.7%	2.9%	2.1%	2.2%
Total - Ordinary Recoveries	**6.7%**	**6.0%**	**6.4%**	**5.4%**	**5.4%**
Net Income from Government Business Enterprises					
Nova Scotia Liquor Corporation	2.4%	2.5%	2.5%	2.4%	2.3%
Nova Scotia Provincial Lotteries and Casino Corporation	1.5%	1.2%	1.2%	1.1%	1.2%
Halifax-Dartmouth Bridge Commission	0.1%	0.1%	0.1%	0.1%	0.1%
Highway 104 Western Alignment Corporation	0.0%	0.0%	0.0%	0.0%	0.0%
QE2 Health Sciences	---	0.0%	0.0%	---	---
	4.0%	**3.8%**	**3.8%**	**3.6%**	**3.6%**
Total - Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Chart 1D Revenues By Source

2014-2015 Forecast



2015-2016 Estimate



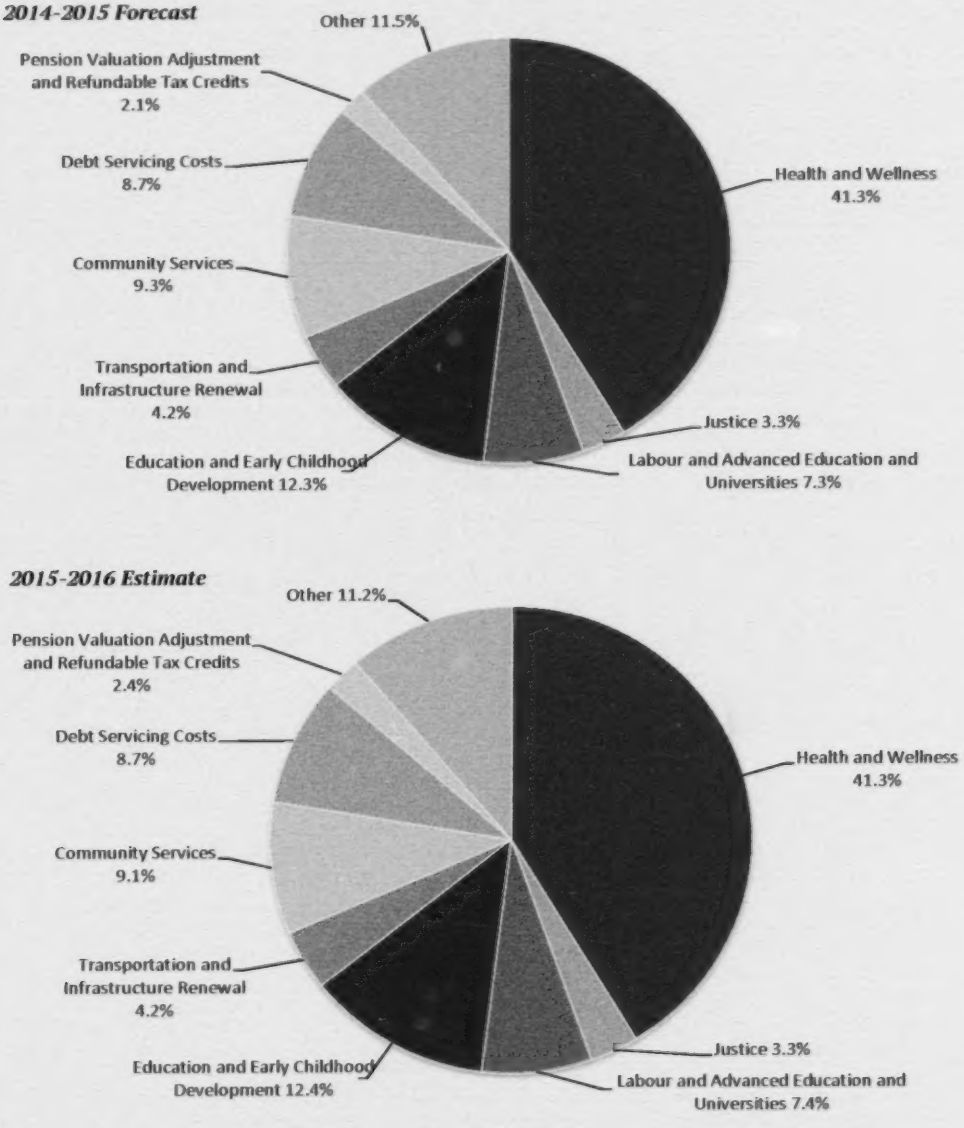
Schedule 1D Total Expenses
($ thousands)

General Revenue Fund: Expenses	Actual 2011-2012 (as restated)	Actual 2012-2013 (as restated)	Actual 2013-2014	Forecast 2014-2015	Estimate 2015-2016
Departmental Expenses					
Agriculture	63,704	63,760	61,679	73,127	61,536
Business	---	---	---	---	114,143
Communities, Culture and Heritage	54,236	57,182	58,110	58,398	61,837
Community Services	975,572	941,824	941,982	920,092	915,410
Economic and Rural Development and Tourism	107,709	171,878	135,915	160,332	---
Education and Early Childhood Development	1,131,055	1,110,600	1,115,907	1,219,089	1,244,607
Energy	30,202	29,305	30,336	31,728	30,160
Environment	26,652	24,737	24,585	26,084	25,343
Finance and Treasury Board	33,552	37,664	40,704	12,797	14,415
Fisheries and Aquaculture	8,284	8,474	9,015	9,416	9,883
Health and Wellness	3,757,896	3,857,460	3,913,470	4,082,906	4,137,741
Internal Services	---	---	---	152,289	180,300
Justice	295,490	311,631	312,961	322,068	327,593
Labour and Advanced Education	339,072	345,474	367,601	347,185	362,931
Assistance to Universities	387,215	380,847	336,749	372,548	376,084
Municipal Affairs	---	---	---	153,088	167,474
Natural Resources	101,245	99,354	84,831	88,471	82,983
Public Service	165,803	160,492	157,483	233,989	200,947
Seniors	1,866	1,748	1,813	1,729	1,496
Service Nova Scotia and Municipal Relations	260,017	269,607	265,745	---	---
Transportation and Infrastructure Renewal	408,853	419,286	457,265	414,897	419,277
Restructuring Costs	86,949	173,471	148,721	148,723	175,853
Total Departmental Expenses	**8,235,372**	**8,464,794**	**8,464,872**	**8,828,956**	**8,910,013**
Other Expenses					
Refundable Tax Credits	116,510	127,145	101,983	127,052	150,968
Pension Valuation Adjustment	40,041	108,510	388,160	78,769	90,654
Debt Servicing Costs	842,793	897,371	857,317	862,611	872,612
Total Expenses	**9,234,716**	**9,597,820**	**9,812,332**	**9,897,388**	**10,024,247**

Schedule 1D Total Expenses *(continued)*
(as a percentage of Total Expenses)

General Revenue Fund: Expenses	Actual 2011-2012 (as restated)	Actual 2012-2013 (as restated)	Actual 2013-2014	Forecast 2014-2015	Estimate 2015-2016
Agriculture	0.7%	0.7%	0.6%	0.7%	0.6%
Business	—	—	—	—	1.1%
Communities, Culture and Heritage	0.6%	0.6%	0.6%	0.6%	0.6%
Community Services	10.6%	9.8%	9.6%	9.3%	9.1%
Economic and Rural Development and Tourism	1.2%	1.8%	1.4%	1.6%	—
Education and Early Childhood Development	12.2%	11.6%	11.4%	12.3%	12.4%
Energy	0.3%	0.3%	0.3%	0.3%	0.3%
Environment	0.3%	0.3%	0.3%	0.3%	0.3%
Finance and Treasury Board	0.4%	0.4%	0.4%	0.1%	0.1%
Fisheries and Aquaculture	0.1%	0.1%	0.1%	0.1%	0.1%
Health and Wellness	40.7%	40.2%	39.9%	41.3%	41.3%
Internal Services	—	—	—	1.5%	1.8%
Justice	3.2%	3.2%	3.2%	3.3%	3.3%
Labour and Advanced Education	3.7%	3.6%	3.7%	3.5%	3.6%
Assistance to Universities	4.2%	4.0%	3.4%	3.8%	3.8%
Municipal Affairs	—	—	—	1.5%	1.7%
Natural Resources	1.1%	1.0%	0.9%	0.9%	0.8%
Public Service	1.8%	1.7%	1.6%	2.4%	2.0%
Seniors	0.0%	0.0%	0.0%	0.0%	0.0%
Service Nova Scotia and Municipal Relations	2.8%	2.8%	2.7%	—	—
Transportation and Infrastructure Renewal	4.4%	4.4%	4.7%	4.2%	4.2%
Restructuring Costs	0.9%	1.8%	1.6%	1.5%	1.8%
Total Departmental Expenses	**89.2%**	**88.2%**	**86.3%**	**89.2%**	**88.9%**
Refundable Tax Credits	1.3%	1.3%	1.0%	1.3%	1.5%
Pension Valuation Adjustment	0.4%	1.1%	4.0%	0.8%	0.9%
Debt Servicing Costs	9.1%	9.3%	8.7%	8.7%	8.7%
Total Expenses	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Chart 1E Total Expenses


2014-2015 Forecast
Other 11.5%
Pension Valuation Adjustment and Refundable Tax Credits 2.1%
Debt Servicing Costs 8.7%
Community Services 9.3%
Transportation and Infrastructure Renewal 4.2%
Education and Early Childhood Development 12.3%
Labour and Advanced Education and Universities 7.3%
Justice 3.3%
Health and Wellness 41.3%
2015-2016 Estimate
Other 11.2%
Pension Valuation Adjustment and Refundable Tax Credits 2.4%
Debt Servicing Costs 8.7%
Community Services 9.1%
Transportation and Infrastructure Renewal 4.2%
Education and Early Childhood Development 12.4%
Labour and Advanced Education and Universities 7.4%
Justice 3.3%
Health and Wellness 41.3%

Schedule 1E Estimated Value Of Tax Credits, Rebates and Tax Expenditures

($000)

	2014-2015 Estimate	2014-2015 Forecast	2015-2016 Estimate
Personal Income Tax:			
Political Tax Credit	728	750	771
Volunteer Firefighter and Ground Search and Rescue	3,946	3,932	3,932
Labour Sponsored Venture Capital Corporation	49	14	14
Equity Tax Credit	9,082	7,958	8,330
Affordable Living Tax Credit	66,475	66,475	65,822
Healthy Living Tax Credit	1,223	1,407	---
Total	**81,503**	**80,536**	**78,869**
Corporate Income Tax:			
Political Tax Credit	44	44	44
Scientific Research and Experimental Development	18,018	17,758	18,247
New Small Business Tax Holiday	63	43	44
Digital Media Tax Credit	4,686	7,501	7,501
Film Industry Tax Credit	22,441	23,543	24,094
Capital Investment Tax Credit	—	7,843	31,372
Small Business Tax Credit	194,760	204,408	205,483
Total	**240,012**	**261,140**	**286,784**
Harmonized Sales Tax:			
Public Sector Rebates	122,595	128,354	130,114
Printed Book Rebate	10,054	10,048	10,391
First-time Homebuyers Rebate	672	637	658
Disability Rebates	76	158	163
Fire Fighting Equipment Rebate	102	145	149
Your Energy Rebate (YERP)	115,887	114,736	116,949
Children's Clothing Rebate	7,566	7,716	7,979
Children's Footwear Rebate	1,681	1,679	1,737
Diapers and Feminine Hygiene Products Rebate	3,816	3,887	4,020
Total	**262,448**	**267,358**	**272,159**

Report of the Auditor General

Supplementary to the 2015–2016 Budget

Auditor General of Nova Scotia

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Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the fiscal year ending March 31, 2016 used in the preparation of the April 9, 2015 Budget.

To the House of Assembly

I am required by section 20 of the Auditor General Act to provide an opinion on the reasonableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance and Treasury Board to the House of Assembly.

The estimates of revenue for the fiscal year ending March 31, 2016 are the responsibility of the Department of Finance and Treasury Board and have been prepared by departmental management using assumptions with an effective date of March 30, 2015 or earlier (including economic assumptions dated February 12, 2015). I have examined the support provided by departmental management for the assumptions and the preparation and presentation of the revenue estimates in the amount of $10,797,106,000 as described in the financial forecast of Revenues By Source (the 2015-16 revenue estimates as presented in Schedule 2A of the Nova Scotia Budget Assumptions and Schedules), and which consists of revenue estimates of $9,920,008,000 in the General Revenue Fund, and an estimate of revenue from third parties in certain government entities of $877,098,000 (Schedule 2B). My examination was made in accordance with the applicable Assurance and Related Services Guideline set out in the CPA Canada Handbook - Assurance. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

In my opinion:

- as at the date of this report, the assumptions used by departmental management are suitably supported and consistent with the plans of the government, and provide a reasonable basis for the 2015-16 revenue estimates;
- the 2015-16 revenue estimates as presented reflect such assumptions; and
- the 2015-16 revenue estimates comply with presentation and disclosure standards set out in CPA Canada Handbook - Accounting.

Since the 2015-16 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variance may be material. Accordingly, I express no opinion as to whether the revenue estimates will be achieved. My examination did not include, and my opinion does not cover, the budget speech or the 2015-16 expense estimates. My opinion also does not cover prior years' forecast or actual information provided for comparative purposes.

Michael Pickup, CA
Auditor General of Nova Scotia

Halifax, Nova Scotia
April 8, 2015

Schedule 2A Revenues By Source
($ thousands)

General Revenue Fund: Revenues	Estimate 2015-2016	
Ordinary Revenue - Provincial Sources		
Tax Revenue:		
Personal Income Tax	2,524,962	
Corporate Income Tax	493,193	
Harmonized Sales Tax	1,761,253	
Motive Fuel Tax	262,276	
Tobacco Tax	217,792	
Other Tax Revenue	158,855	
	5,418,331	
Other Provincial Revenue:		
Registry of Motor Vehicles	126,949	
Royalties - Petroleum	19,405	
Other Provincial Sources	142,609	
TCA Cost Shared Revenue - Provincial Sources	1,750	
Other Fees and Charges	63,176	
	353,889	
Investment Income:		
Interest Revenues	79,031	
Sinking Fund Earnings	99,549	
	178,580	
Total - Provincial Sources	**5,950,800**	
Ordinary Revenue - Federal Sources		
Equalization Payments	1,768,921	
Canada Health Transfer	896,863	
Canada Social Transfer	341,579	
Offshore Accord Offset Payments	36,779	
Crown Share	7,437	
Other Federal Sources	2,319	
TCA Cost Shared Revenue - Federal Sources	31,963	
Total - Federal Sources	**3,085,861**	
Total - Revenues	**9,036,661**	
Ordinary Recoveries		
Provincial Sources	317,269	
Federal Sources	213,969	
Total - Ordinary Recoveries	**531,238**	
Net Income from Government Business Enterprises		
Nova Scotia Liquor Corporation	228,229	
Nova Scotia Provincial Lotteries and Casino Corporation	111,300	
Halifax-Dartmouth Bridge Commission	11,607	
Highway 104 Western Alignment Corporation	973	
	352,109	
Total - Revenues of the General Revenue Fund	**9,920,008**	1
Total Governmental Unit Third Party Revenues (Schedule 2B)	877,098	
Total - Revenue of the Province	10,797,106	

1: Total Revenue of the General Revenue Fund is the balance that is carried through the Estimates of the Province. It is the budget of the General Revenue Fund that is the responsibility of the House of Assembly. The activities of the Governmental Units are effectively presented as off-sets against the expenses of their respective governmental units within the "Consolidation and Accounting Adjustments for Governmental Units". See Schedule 2B for further explanation of the Total Third Party Revenue of Governmental Units.

Schedule 2B Governmental Unit Third Party Revenues
($ thousands)

	Estimate 2015-2016
Governmental Unit Third Party Revenues	
Regional School Boards and Nova Scotia Community College	381,253
Provincial Health Authorities	256,576
Housing Nova Scotia	138,601
Resource Recovery Fund Board	49,947
Trade Centre Limited	10,914
Nova Scotia E911	6,109
Waterfront Development Corporation	4,187
Nova Scotia Utility and Review Board	3,450
Governmental Units with third party revenue less than $2.5 Million	26,061
Total Governmental Unit Third Party Revenues	**877,098** [2]

2: The governmental unit third party revenues are presented in this schedule to enable the total revenues of the Province to be presented on a basis consistent with the consolidated financial statements of the Province. The budgets of these organizations are subject to the approval of their respective board of directors.

Budget Assumptions

Supplementary to the 2015–2016 Budget

Revenue Outlook

In 2015–2016, Nova Scotia's total revenues in its General Revenue Fund are estimated to be $9,920.0 million (Schedule 1A – Budgetary Summary). This is an increase of $353.9 million or 3.7 per cent from the 2014–2015 budget estimate and an increase of $157.2 million or 1.6 per cent compared to the 2014–2015 forecast.

Schedule 1C shows the breakdown of revenues by four main sources.

Provincial own-source revenues in 2015–2016 are expected to be $5,950.8 million. This is an increase of $293.6 million or 5.2 per cent from the 2014–2015 budget estimate and an increase of $120.1 million or 2.1 per cent from the 2014–2015 forecast.

Provincial own-source revenues reflect provincial tax changes in 2015–2016 arising from

- the elimination of the Healthy Living Tax Credit
- lowering the Dividend Tax Credit rate for non-eligible dividends
- capping the annual amount of corporate capital tax paid by a financial institution
- transforming the Film Industry Tax Credit from being fully refundable to a 25 per cent refundable / 75 per cent non-refundable tax credit, effective July 1, 2015
- raising tobacco tax rates by $0.02 per cigarette, $0.02 per gram of fine-cut tobacco, and $0.02 per pre-portioned tobacco stick.

Federal source revenues are projected to be $3,085.9 million in 2015–2016, an increase of $39.3 million or 1.3 per cent from the 2014–2015 budget estimate; an increase of $27.9 million or 0.9 per cent, from the 2014–2015 forecast.

Ordinary Recoveries from provincial sources are up $5.9 million or 1.9 per cent from the 2014–2015 budget estimate; down $5.2 million or 1.6 per cent compared to the 2014–2015 forecast. Ordinary Recoveries from federal sources are up $3.4 million or 1.6 per cent from the 2014–2015 budget estimate; up $7.1 million or 3.5 per cent from the 2014–2015 forecast.

Net income from Government Business Enterprises is up $11.7 million or 3.4 per cent from the 2014–2015 budget estimate; up $7.3 million or 2.1 per cent from the 2014–2015 forecast.

Ordinary Revenue—Provincial Sources: Tax Revenue

Personal Income Tax

Nova Scotia's 2015–2016 estimate for personal income tax is $2,525.0 million, up $182.4 million or 7.8 per cent compared to the 2014–2015 budget estimate; an increase of $159.3 million or 6.7 per cent from the 2014–2015 forecast.

Personal taxable income is projected to grow from $27.7 billion in 2014 to $28.7 billion in 2015—an increase of 3.6 per cent; and grow to $29.7 billion in 2016—an increase of 3.7 per cent. This is primarily as a result of stronger growth in compensation of employees than was experienced in 2014, accompanied by continued growth in pension income, business income, and investment income.

Yield on personal taxable income is projected to be 8.71 per cent in 2015 and 8.88 per cent in 2016, which represents growth rates of 3.2 per cent and 2.0 per cent respectively. Yield on personal taxable income in 2014 was 8.45 per cent.

Growth in personal income tax for 2015–2016 is enhanced with the removal of the Healthy Living Tax Credit ($1.8 million) and the change in the Dividend Tax Credit rate for non-eligible dividends ($30.3 million). Both measures are effective January 1, 2015.

Corporate Income Tax

Nova Scotia's 2015–2016 estimate for corporate income tax is $493.2 million, up $51.8 million or 11.7 per cent from the 2014–2015 budget estimate; up $2.6 million or 0.5 per cent compared to the 2014–2015 forecast.

National corporate taxable income is projected to grow by 2.1 per cent in 2015 to $285.1 billion and by 5.7 per cent to $301.5 billion in 2016. These increases more than offset declines in the province's share in both 2015 and 2016 as well as a decrease in provincial corporate taxable income in 2015. Nova Scotia's share of national corporate taxable income is projected to decline by 2.9 per cent in 2015 and by 1.0 per cent in 2016, primarily as a result of net operating surplus for corporations growing at slower rates in the province compared to the national rates of growth. Nova Scotia's corporate taxable income is estimated to decline by $36.9 million or 0.8 per cent in 2015 and to grow by $201.9 million or 4.7 per cent in 2016.

Harmonized Sales Tax (HST)

Net HST is estimated to total $1,761.3 million in 2015-2016 up $50.5 million or 3.0 per cent from the 2014-2015 budget estimate; up $59.4 million or 3.5 per cent compared to the 2014-2015 forecast.

The increase in HST revenues is largely attributable to growth in the consumer expenditure and housing tax bases. The province's total tax base is projected to grow by $611.3 million or 3.1 per cent in 2015 and by $647.1 million or 3.2 per cent in 2016. Growth in the consumer expenditure base is forecasted to be 3.4 per cent in 2015 and 3.5 per cent in 2016. Consumer expenditures represent over 70 per cent of the HST tax base. The pace of growth in taxable residential housing expenditures is expected to rebound, growing by 3.4 per cent in 2015 and 2.9 per cent in 2016 – following a decline in 2014. The rebate on residential energy (Your Energy Rebate Program) is expected to total $116.9 million in 2015-2016.

Tobacco Tax

Tobacco tax revenues are projected to total $217.8 million in 2015–2016, a decrease of $8.9 million or 3.9 per cent from the 2014–2015 budget estimate; up $11.7 million or 5.7 per cent over the 2014–2015 forecast.

A tobacco tax increase of $0.02 per unit, effective April 10, 2015, will generate an additional $15.6 million in 2015–2016. This is partially offset by falling demand for cigarettes and fine cut tobacco, projected to decline by 3.0 per cent and 7.2 per cent respectively. Prices for tobacco products are expected to increase by 6.1 per cent in 2015–2016, accompanied by the long-term decline in smoking.

Motive Fuel Taxes

Motive fuel taxes are projected to total $262.3 million in 2015–2016, an increase of $14.7 million or 5.9 per cent from the 2014–2015 budget estimate; an increase of $10.2 million or 4.0 per cent compared to the 2014–2015 forecast.

Gasoline consumption is estimated to rise by 3.5 per cent to 1.25 billion litres in 2015–2016. Diesel oil consumption is estimated to increase by 3.2 per cent to 442 million litres in 2015–2016.

Continued weakness of the Canadian dollar compared to the U.S. dollar is creating upward pressure on gasoline and diesel oil prices; however, gasoline and diesel oil prices are projected to decline by 13.3 per cent and 15.9 per cent respectively over 2014–2015 prices. Consumption is also aided by an increase in labour income by 4.5 per cent over 2014–2015.

Other Tax Revenue

Other Tax Revenue includes such items as Corporations Capital Tax, Casino Win Tax, Levy on Private Sale of Used Vehicles, Tax on Insurance Premiums, and Gypsum Tax. The total for these items is estimated to be $158.9 million for 2015–2016, up $3.9 million or 2.5 per cent from the 2014–2015 budget estimate; up $4.3 million or 2.8 per cent from the 2014–2015 forecast.

Ordinary Revenue—Provincial Sources: Other Provincial Revenue

Registry of Motor Vehicles

Revenue generated by the Registry of Motor Vehicles is estimated to be $126.9 million for 2015–2016, up $5.5 million or 4.5 per cent from the 2014–2015 estimate; an increase of $3.2 million or 2.6 per cent from the 2014–2015 forecast.

Offshore Petroleum Royalties

Offshore petroleum royalties are estimated to be $19.4 million in 2015–2016, a decrease of $12.4 million or 38.9 per cent from the 2014–2015 budget estimate; down $23.9 million or 55.2 per cent from the 2014–2015 forecast.

Production volume for the Sable Offshore Energy Project (SOEP) is projected to decline as the project nears its technical end date. A major factor contributing to lower revenue, is the accrual of abandonment costs as estimated by SOEP interest holders.

Other Provincial Sources

Revenue from other provincial sources is estimated to be $142.6 million for 2015–2016, up $4.4 million or 3.2 per cent from the 2014–2015 budget estimate; up $1.0 million or 0.7 per cent from the 2014–2015 forecast.

This revenue source includes such items as Pharmacare premiums; Nova Scotia Securities Commission; registrations revenues for deeds, companies, and property; various other licenses and permits; and timber licenses and revenue. The primary reasons for the increase is an increase in estimated revenue from timber licenses and additional revenue generated from the 3 per cent increase in government fees and charges in 2015–2016.

Tangible Capital Asset (TCA) Cost Shared Revenue—Provincial Sources

TCA Cost Shared Revenue from provincial sources is estimated to be $1.8 million for 2015–2016, down $1.6 million from the 2014–2015 budget estimate; down $4.7 million from the 2014–2015 forecast. Funding comes through the Department of Transportation and Infrastructure Renewal from cost-shared road construction projects. The decrease is related to reduced cost-shared Health projects.

Other Fees and Charges

Revenue generated from other fees and charges is estimated to be $63.2 million for 2015–2016, an increase of $0.3 million or 0.4 per cent from the 2014–2015 estimate; up $3.4 million or 5.6 per cent from the 2014–2015 forecast. The increase results primarily from a 3 per cent increase in fees and government charges for 2015–2016.

Ordinary Revenue—Provincial Sources: Investment Income

Interest Revenue

Interest revenue is estimated to be $79.0 million for 2015–2016, up $9.7 million or 14.0 per cent from the 2014–2015 estimate; up $6.3 million or 8.7 per cent from the 2014–2015 forecast. This increase results primarily from interest earned on loans to Irving Shipbuilding Inc. and the Halifax-Dartmouth Bridge Commission.

Sinking Fund Earnings

Sinking Fund Earnings are projected to total $99.5 million in 2015–2016, a decrease of $6.6 million or 6.3 per cent from the 2014–2015 budget estimate; down $5.6 million or 5.3 per cent from the 2014–2015 forecast, primarily as a result of lower interest rates.

Ordinary Revenue—Federal Sources

Equalization

Equalization revenues in 2015–2016 are estimated to be $1,768.9 million, an increase of $11.2 million or 0.6 per cent from the 2014–2015 budget estimate; up $18.3 million or 1.0 per cent compared to the 2014–2015 forecast. The figure is composed of two separate fiscal equalization payments from the federal government.

Firstly, the Equalization estimate reflects the province's adoption of the Expert Panel formula for equalization payments, projected to be $1,689.6 million in 2015–2016, an increase of $70.1 million or 4.3 per cent above both the 2014–2015 budget estimate and the 2014–2015 forecast. Nova Scotia's per capita fiscal capacity has risen compared to other Equalization-receiving provinces; however, this is offset by the legislated maximum annual growth in the program—4.0 per cent for 2015–2016—and less impact from the fiscal capacity cap due to lower offshore royalties and Offshore Accord payments being included in the Equalization formula.

Secondly, as part of a clarification reached with the Government of Canada on October 10, 2007, commencing with the 2008–2009 fiscal year, Nova Scotia is entitled to receive an additional payment from the federal government if the cumulative value of the equalization formula in effect at the time the Offshore Accord was signed (the Interim approach) exceeds the cumulative value of the Expert Panel approach. This is known as the Cumulative Best-of Guarantee. The arrangement is in effect until the end of 2019–2020 to coincide with the term of the Offshore Accord.

The Cumulative Best-of Guarantee (CBOG) payment is estimated to be $79.3 million in 2015–2016, a decrease of $58.9 million or 42.6 per cent from the 2014–2015 budget estimate; down $51.8 million or 39.5 per cent compared to the 2014–2015 forecast. The gap between the CBOG payment and Expert Panel approach is narrowing. The Expert Panel approach is growing at a faster rate than the Interim Approach.

Offshore Accord Offset Payments

Offshore Offset payments are estimated to be $36.8 million in 2014–2015, a decrease of $27.7 million or 43.0 per cent from both the 2014–2015 budget estimate and the 2014–2015 forecast. The decrease reflects the declining offshore royalties included in the equalization formula. The equalization formula uses a two-year lag in data and a three-year weighted average. The province is eligible to receive offshore offset payments for the second phase of the 2005 Offshore Accord that runs from 2012–2013 until the end of 2019–2020, as long as it continues to be in receipt of equalization payments.

The Canada Health Transfer (CHT)

Effective with the 2014–2015 fiscal year, the federal government renewed the CHT to provide for equal per capita cash for all provinces and territories. The new formula is in place for a 10-year period. The 2015–2016 national CHT amount that is available for distribution is set at $34.0 billion. The CHT is legislated to grow by 6 per cent each year until the end of the 2016–2017 fiscal year.

The CHT cash entitlement for Nova Scotia is estimated to be $896.9 million in 2015–2016, an increase of $50.1 million or 5.9 per cent from the 2014–2015 budget estimate; up $44.7 million or 5.2 per cent compared to the 2014–2015 forecast. The estimate reflects the federal government's estimate of the province's declining share of national population, currently standing at 2.64 per cent, compared to 2.65 per cent in 2014–2015. National population grew by 1 per cent while the province's population grew by 0.29 per cent.

The Canada Social Transfer (CST)

Nova Scotia's 2015–2016 cash entitlement for CST is estimated to be $341.6 million, an increase of $9.7 million or 2.9 per cent from the 2014–2015 budget estimate; up $7.6 million or 2.3 per cent from the 2014–2015 forecast.

The provincial entitlement is based on an equal per capita cash provincial allocation of a fixed national entitlement, which stands at $13.0 billion for 2015–2016. Effective with the 2014–2015 fiscal year, the CST was renewed for a further 10-year period with the national pool legislated to grow by 3 per cent a year through to the end of the 2023–2024 fiscal year.

The estimate reflects the federal government's estimate of the province's declining share of national population, currently standing at 2.64 per cent, compared to 2.65 per cent in 2014–2015. National population grew by 1 per cent while the province's population grew by 0.29 per cent.

Crown Share Adjustment Payment

The Crown Share Adjustment Payment is estimated to be $7.4 million in 2015–2016, a decrease of $6.3 million or 46.0 per cent from the 2014–2015 budget estimate; down $13.6 million or 64.7 per cent compared to the 2014–2015 forecast. The estimate reflects the underlying profitability of offshore oil and gas projects.

Other Federal Sources

Other Federal Sources are estimated to be $2.3 million in 2015–2016, a decrease of $5.6 million or 70.7 per cent from the 2014–2015 budget estimate; down $1.6 million or 40.2 per cent from the 2014–2015 forecast.

Other Federal Sources comes from a statutory subsidy from the federal government. Previously this category included a portion of Building Canada funding and Infoway funding. These funding sources have either ended or are reported in different revenue categories.

Tangible Capital Asset (TCA) Cost Shared Revenue—Federal Sources

The estimate of TCA cost shared federal revenue is $32.0 million for 2015–2016. This represents an increase of $8.0 million or 33.3 per cent compared to the 2014–2015 budget estimate; an increase of $8.5 million or 36.5 per cent from the 2014–2015 forecast. The increase results from higher Building Canada and Gateway funding at Transportation and Infrastructure Renewal.

Ordinary Recoveries

Ordinary Recoveries are projected to total $531.2 million in 2015–2016, an increase of $9.3 million or 1.8 per cent from the 2014–2015 budget estimate; up $2.0 million or 0.4 per cent from the 2014–2015 forecast of $529.3 million.

Provincial source recoveries are up $5.9 million or 1.9 per cent to $317.3 million; a decrease of $5.2 million or 1.6 per cent from the 2014–2015 forecast, while federal sources are up $3.4 million or 1.6 per cent to $214.0; an increase of $7.1 million or 3.5 per cent from the 2014–2015 forecast. The increase in provincial source recoveries relates primarily to increased Royal Canadian Mounted Police (RCMP) costs recovered from municipalities and increased recovery of third-party work at Internal Services.

The increase in federal sources relates primarily to the new Building Canada funding, which is flowed to municipalities through the provincial government.

Government Business Enterprises—Net Income

Nova Scotia Liquor Corporation

The Nova Scotia Liquor Corporation (NSLC) returns all of its income from operations ("income") to the Government of Nova Scotia as shareholder. The NSLC is budgeting comprehensive income of $228.2 million in 2015–2016. This is an increase of 2.1 per cent compared to the 2014–2015 budget estimate of $223.5 million, impacted by modest sales growth of 0.8 per cent, along with a 0.2 per cent reduction in overall expenses (including actuarial losses).

Nova Scotia Provincial Lotteries and Casino Corporation

The Nova Scotia Provincial Lotteries and Casino Corporation's (NSPLCC) net income is budgeted to be $111.3 million in 2015–2016, which is $8.2 million higher than the 2014–2015 estimate of $103.1 million. NSPLCC's revenue will increase in 2015–2016 by $6.7 million compared to the 2014–2015 estimate, primarily due to changes in the video lottery business line.

Halifax-Dartmouth Bridge Commission

Halifax-Dartmouth Bridge Commission (operating as Halifax Harbour Bridges) is budgeting comprehensive net income for the 2015–2016 fiscal year at $11.6 million. This represents a $2.0 million or 20.6 per cent increase over the forecast of 2014–2015 comprehensive net income, which was reduced by a one-time charge for an early debt repayment. Total revenue is projected to decline from 2014–2015 with lower toll revenues due to bridge closures associated with the replacement of the suspended span of the Macdonald Bridge and lower investment income. Total expenses will decline by a greater amount than the drop in revenue with lower interest charges and no early debt repayment charges, offset by increases in amortization.

Highway 104 Western Alignment Corporation

Highway 104 Western Alignment Corporation's budget estimate for 2015–2016 of $973 thousand is down from the 2014–2015 estimate of $1.645 million. Total revenue is budgeted to be $20.9 million; up slightly from the 2014–2015 estimate of $20.8 million. Total expenses are budgeted to be $19.9 million; up from the 2014–2015 estimate of $19.2 million. The estimate reflects the most recent costs being incurred by the Highway104 Corporation as well as current traffic trends.

Key Tax Measures—Personal Income Taxes

Removal of Healthy Living Tax Credit

Effective January 1, 2015, government will eliminate the Healthy Living Tax Credit. Implemented in 2005, the Healthy Living Tax Credit provided parents a maximum non-refundable credit of $500 for each child under the age of 18 that is enrolled in registered sport or recreational activities. The cost of the Healthy Living Tax Credit in 2014–2015 was approximately $1.8 million.

Dividend Tax Credit Rate for Non-eligible dividends

Effective January 1, 2015, the Dividend Tax Credit rate for non-eligible dividends will be reduced from 5.87 per cent to 3.5 per cent. The Dividend Tax Credit compensates individual shareholders for the fact that dividend income is taxed at the corporation level and again at the personal level. Non-eligible dividends are typically paid out by small businesses. Most Canadian jurisdictions set the non-eligible dividend rate to be equal to the small business corporate income tax rate to achieve integration between the personal and corporate income tax systems. The province's small business tax rate is 3.0 per cent. The rate change will provide an additional $30.3 million in revenues in 2015–2016.

Removal of Personal Income Tax for GIS Recipients

Continuing for 2015–2016, residents of Nova Scotia who receive the Guaranteed Income Supplement (GIS) will continue to be refunded their provincial personal income taxes paid. The GIS is an income transfer paid by the federal government to low-income seniors who meet certain eligibility criteria.

$1,000 Non-refundable Age Amount Tax Credit for Low Income Seniors

Effective January 1, 2014, a new $1,000 non-refundable Age Amount tax credit for seniors with taxable income under $24,000 came into effect. Combined with the refund of personal income tax to GIS recipients, over 25,000 seniors will no longer pay provincial personal income tax.

Fifth Tax Bracket and Elimination of the Personal Income Tax Surtax

Effective January 1, 2010, government implemented a fifth personal income tax bracket of 21 per cent applicable to taxable income exceeding $150,000. To offset the impact of this measure, government removed the 10 per cent surtax applied to Nova Scotia residents with provincial personal income taxes payable of more than $10,000. These measures will remain in place for 2015–2016.

Key Tax Measures—Business Taxes

Capital Investment Tax Credit

Effective January 1, 2015, the Capital Investment Tax Credit will provide a 15 per cent refundable corporate income tax credit for capital equipment acquired for use in Nova Scotia as part of a capital project that exceeds $15 million in total cost. The tax credit is available to corporations primarily in the manufacturing and processing, farming, fishing, and logging sectors. The Capital Investment Tax Credit is projected to cost $31.4 million in 2015–2016.

Film Industry Tax Credit

Effective July 1, 2015, the Film Industry Tax Credit will be revised from a fully refundable corporate income tax credit to a partially refundable tax credit. Screen-based productions by eligible corporations that commence principle photography after June 30, 2015, will receive a 75 per cent non-refundable and a 25 per cent refundable tax credit on eligible labour expenditures. Productions that commence principle photography before July 1, 2015, will remain eligible for the fully refundable tax credit. Given the historical timing of productions and their application for the Film Industry Tax Credit, no impact on tax expenditures is expected in the 2015–2016 fiscal year. In addition, government will work with industry to establish a program fund for creative economy industries to commence in 2016.

Corporation Capital Tax—Financial Institutions

Effective January 1, 2015, an annual cap of $12 million in capital tax payable will be established for financial institutions required to pay tax under the Corporation Capital Tax Act. The tax applies to capital (e.g., paid-up capital stock, surpluses, reserves, etc.) employed in Nova Scotia by certain financial institutions. There is no revenue impact in 2015–2016 as a result of this measure.

Small Business Corporate Income Tax

Effective January 1, 2014, the rate was reduced from 3.5 per cent to 3.0 per cent. Until December 31, 2013, small businesses were eligible for the reduced rate on the first $400,000 of taxable income, if they were a Canadian Controlled Private Corporation with taxable capital of $10 million or less. Effective January 1, 2014, the threshold was reduced to $350,000.

Key Tax Measures—Consumption Taxes

Tobacco Taxes

Effective at 12:01 am on April 10, 2015, the tobacco tax rate will increase by $0.02 per cigarette, $0.02 per gram of fine-cut tobacco, and $0.02 per pre-proportioned tobacco stick.

The new rate will be $0.2552 per cigarette, an increase of $4 per carton of 200 cigarettes. Tobacco tax on a carton of cigarettes will be $51.04. The tobacco tax rate increase will generate an additional $15.6 million in revenues for 2015–2016. The last tobacco tax rate increase took place on April 5, 2013.

Affordable Living Tax Credit

The province will continue to offer a Harmonized Sales Tax (HST) credit to low-income households. For the average low-income household the credit will more than offset the impact of the HST rate increase that took place July 1, 2010.

The credit is paid quarterly in July, October, January, and April of each year. The maximum rebate is $255.00 per household plus $60.00 per dependent child for households earning less than $30,000 per year. Above $30,000 the credit will be reduced by $0.05 per $1.00 of income and will be completely phased out at a household income of $35,100. Similar to the federal government's Goods and Services Tax credit, individuals will need to file an income tax return to be eligible to receive the HST credit.

HST Rebate on New Homes for First-Time Home Buyers

The province currently provides a rebate of 18.75 per cent (to a maximum of $3,000) of the provincial portion of the HST on new homes purchased by first-time home buyers. First-time home buyers are defined as individuals who have not owned and occupied a home in the past five years.

The maximum rebate was increased to $3,000 where the Agreement of Purchase and Sale is entered into on or after April 1, 2012. The rebate is also available on the purchase of land, services, and materials for owner-built homes.

Point-of-Sale (POS) Rebates of HST

In 2015–2016, point-of-sale rebates of the provincial portion of the HST on the following products will continue:

- Children's clothing
- Children's footwear
- Children's diapers
- Feminine hygiene products
- Printed books
- Residential energy (Your Energy Rebate Program)

Sensitivity

Revenue estimates, which are in the form of a forecast, are based on a number of economic, financial, tax assessment, and statistical values and assumptions. All of these reflect the province's planned course of action for the forecast period and professional judgment as to the most probable set of economic conditions.

As these variables change and more information becomes available throughout the year, they may have an impact, either negative or positive, on the revenue forecasts. These impacts could be material. The province intends to update the forecast periodically throughout the forecast period. The above referenced variables can move independently and may have offsetting effects.

The following table lists the specific key economic assumptions and variables that directly affect the calculation of provincial revenue estimate and forecast figures, as included in this Revenue Outlook section, and reflect assumptions developed by the province as at March 30, 2015.

Table 3A Key Economic Assumptions and Variables Affecting Revenue Estimates

Revenue Source	Key Variables
Personal Income Taxes	• personal taxable income levels • provincial taxable income yield • tax credits uptake
Corporate Income Taxes	• national corporate taxable income levels as provided by Finance Canada • Nova Scotia share of national taxable income • tax credits uptake • national and provincial corporate profit levels
HST	• personal consumer expenditure levels • provincial gross domestic product • spending by exempt industries • rebate levels • residential housing investment
Tobacco, Gasoline, and Diesel Taxes	• personal consumer expenditure levels • tobacco and fuel consumption patterns • tobacco and fuel prices • labour income
Petroleum Royalties	• foreign exchange rates • production levels • capital and operating costs of interest holders • world price of natural gas, subject to current market conditions
Equalization	• one-estimate one-payment approach
CHT/CST	• annual increases in the national base amount • changes in population

Additional Information

In addition to the key economic and fiscal assumptions contained in the 2015–2016 revenue estimates, the following information should also be taken into account when interpreting the revenue estimates.

The revenue estimates for 2015–2016 are considered to have been prepared on a basis consistent with accounting policies currently used by the province to record and/or recognize revenue for purposes of its General Revenue Fund.

The Department of Finance and other departments or agencies of the province have prepared specific revenue estimates for 2015–2016 using a combination of current internal and external models and other information available. Every effort has been made to ensure the integrity of the results of the models and other information. As actual or more current information becomes available, adjustments may be necessary to the projection of revenues.

The revenue projected from federal transfer payment programs pursuant to the Federal-Provincial Fiscal Arrangements Act incorporates official information released by the federal government as of December 12, 2014. In addition, transfer payment revenue estimates are based on Canadian national and provincial population estimates supplied by Statistics Canada.

Prior Years' Adjustments (PYAs) are normally made to federal transfers and to income tax revenues. All PYAs known to date have been included in the final revenues for 2014–2015.

Overview of Treasury Management

The Department of Finance and Treasury Board serves as the treasury function for most of the government entity, including managing daily banking functions (bank transfers, short-term investing and borrowing, and banking relationships) and short-term investments of special funds—sinking funds, Public Debt Management Fund (PDMF), and miscellaneous trust funds.

The Department of Finance and Treasury Board is responsible for managing Nova Scotia's gross financial market debt portfolio, which is estimated to have stood at $16.3 billion as of March 31, 2015. Against this gross financial market debt are financial assets held in mandatory ($1.8 billion) and discretionary ($855.0 million) sinking funds plus holdings of Nova Scotia Municipal Finance Corporation debt ($808.0 million) plus advances to date to Halifax Bridges ($26.7 million). These assets total $3.5 billion and are subtracted from gross financial market debt to result in a net financial market debt of $12.8 billion. The management of this net financial market debt position consists of executing the borrowing program, investing sinking funds and the PDMF, and where cost-effective to do so, executing derivative transactions.

The government's budgetary policy sets the context for treasury management operations. The province's annual fiscal plan sets the context for debt management. This budget shows that the government intends to incur a budgetary deficit of $97.6 million in 2015–2016 and transition to a surplus budget the following year.

The management of the debt portfolio and borrowing program must consider the external financial and economic environment. Entering 2015–2016, global financial markets are expected to be challenging as a result of a number of external factors, such as:

(1) ongoing financial market reform efforts by sovereign governments, central banks, and international regulators to increase capital reserves for systemically important financial institutions, in conjunction with the alignment and enhancement of cross jurisdictional regulation;

(2) financial market risks within the Euro area as a result of the European Central Bank's quantitative easing (QE) program and the resultant likelihood of successful stimulation of sustainable economic growth for the region;

(3) economic and financial market risks, in the US rest with the unwinding of quantitative easing by the US Federal Reserve;

(4) the ongoing geopolitical instability in Eastern Europe and the Middle East creating uncertainty and knock-on effects to financial markets.

The above highlight some of the financial and geopolitical externalities that have the potential to create volatility in financial markets and make the management of the debt portfolio and implementation of the borrowing program challenging.

The Budget Estimates and Public Accounts are presented on a full accrual basis. In contrast, Treasury Management is the cash side of government operations, and in this context, the borrowing requirements are a cash flow measure, representing actual cash transactions related to the current, past, and future budgetary transactions, as well as the cash flow implications of non-budgetary transactions, such as capital advances to governmental units, and net acquisition of tangible capital assets.

In 2014–2015, the province had a $529.0 million increase in net financial market debt outstanding in financial markets due to the budgetary deficit, net acquisition of tangible capital assets, and on-lending activities of the General Revenue Fund. The province estimates that net financial market debt in financial markets will increase by about $158.0 million in 2015–2016 due to the $97.6 million budgetary deficit, the net acquisition of $59.2 million in tangible capital assets and on-lending to Crown corporations. Offsetting these items are non-cash expenses that lower borrowing requirements and repayments from the NS Municipal Finance Corporation.

Nova Scotia's ratio of net debt to nominal gross domestic product at market prices is estimated to have stood at 36.9 per cent at March 31, 2015, down from 37.7 per cent a year earlier.

Nova Scotia Credit Ratings

Nova Scotia maintains a policy of full disclosure and transparency with financial market participants.

Nova Scotia actively communicates its economic and fiscal position both to investors and to bond-rating agencies. The improved fiscal outlook has been recognized by credit rating agencies. Nova Scotia has generally posted budgetary surpluses since the early 2000s, interrupted with modest budgetary deficits in 2009–2010 and the years 2011–2012 to 2014–2015. In 2014–2015 all three rating agencies confirmed the province's credit rating; DBRS raised the province's rating to "A(high)" in 2013–2014. The following table shows current provincial credit ratings (note that (neg) refers to a negative outlook / (pos) a positive outlook, indicating the rating agency may change the respective province's credit rating downward / upwards over the next year or so).

Table 3B Canadian Provincial Ratings:
March 2015

	DBRS	S&P	Moody's
British Columbia	AA(high)	AAA	Aaa
Alberta	AAA	AAA	Aaa
Saskatchewan	AA	AAA	Aaa
Manitoba	A(high)	AA	Aa1(neg)
Ontario	AA(low)	AA-(neg)	Aa2(neg)
Quebec	A(high)	A+	Aa2
New Brunswick	A(high)	A+	Aa2
Nova Scotia	A(high)	A+	Aa2
Prince Edward Island	A(low)	A	Aa2
Newfoundland and Labrador	A	A+	Aa2

Nova Scotia files a Form 18-K Annual Report and other required documents with the Securities and Exchange Commission (SEC), which provides information to investors and the general public on the economic, fiscal, and debt situation of the province. The most recent submission can be viewed on the Department of Finance and Treasury Board website.

Structure of the Debt Portfolio

The structure of the debt portfolio has been evolving over the past number of years with the intent of locking in historically low interest rates, protecting the province's fiscal situation from unanticipated increases in interest rates, and managing the province's refinancing requirements for the long term.

The following five profiles are provided to describe the overall structure and risk profile of the province's debt portfolio: (1) primary issuance market activities, (2) the debt maturity schedule, (3) foreign currency exposure, (4) interest rate mix, and (5) derivative counterparty exposure.

1. Primary Issuance Market

The Province of Nova Scotia expects to post a budgetary deficit of $97.6 million in 2015–2016. In addition to funding the budgetary deficit, the Department of Finance and Treasury Board borrows monies in capital markets to refinance existing debt, to fund the acquisition of net tangible capital assets, for on-lending to Crown corporations, and for other non-budgetary purposes.

The management of the debt maturities and timing of new debt issuance are optimized by the use of discretionary sinking fund reserves held by the province. As noted below, these discretionary funds represent an integral component of the Treasury Management strategy of the province as their drawdown or replenishment can significantly alter the timing of debt issuance year to year.

In the fiscal year 2014–2015, the province borrowed $1,100.0 million compared to term debt borrowing requirements of $770.0 million estimated in the budget. Market conditions and opportunities, particularly for floating interest rate notes, were very favourable in 2014–2015.

The borrowing completed in 2014–2015 was by way of three Canadian Overnight Repo Rate (CORRA) floating interest rate notes, three public debt issues, and one term debt private placement. CORRA is the weighted average rate of overnight general (non-specific) collateral repo trades that occurred through designated inter-dealer brokers between 6:00 and 16:00 EDT on the specified date as reported to the Bank of Canada. The rate is published by the Bank of Canada in the morning (9:00) of the end date. The Province of Nova Scotia was the first to issue what has been termed a "CORRA floater," with the intent of the province diversifying the portfolio of short-term debt instruments. This diversification expected to be of benefit to debt-servicing costs in times of financial stress, with no incremental cost in normal times.

The increase in the borrowing requirements in 2014–2015 was primarily for the General Revenue Fund's purchase of $142.0 million in debt issued by the Nova Scotia Municipal Finance Corporation and Halifax Bridges. Those two factors were offset somewhat by lower net capital advances to Crown corporations ($45.3 million lower than the 2014–2015 Budget Estimates). The province pre-borrowed $200.0 million for the 2015–2016 fiscal year.

The Department of Finance and Treasury Board reopened for a further $350.0 million the CORRA floating interest rate note, a debt issue based on the CORRA instead of the usual Bankers' Acceptances (in formal terms the Canadian Dollar Overnight Rate ("CDOR"). The province now has $825.0 million outstanding in CORRA floating interest rate notes.

The Debt Management Committee, an advisory Committee to the Minister of Finance, has had a policy guideline over the past number of years to increase the portion of long-term debt in the gross debt portfolio. The ongoing goal is to structure the maturity profile to withstand adverse changes in economic and fiscal circumstances. At present, the province continues to have about 50 per cent of Net Financial Market Debt in issues longer than 15 years.

Certain Crown agencies of the Province of Nova Scotia invest monies with the provincial General Revenue Fund on a short- and long-term basis. This activity is an efficient use of funds that provides both security and market returns to Crown agencies while providing the General Revenue Fund with funding at market cost of funds.

At March 31, 2015, Nova Scotia Business Inc., Resource Recovery Fund Board, Nova Scotia Municipal Finance Corporation, Strategic Opportunities Fund, and Nova Scotia Crop and Livestock Insurance Commission invested a total of $191.4 million with the General Revenue Fund, and the Halifax-Dartmouth Bridge Commission invested a total of $133.3 million in Province of Nova Scotia promissory notes.

There were also entities that are not part of the Consolidated Entity that invested with the General Revenue Fund. Those entities are the Nova Scotia Research and Innovation Trust, Nova Scotia Nominee Program, and Nova Scotia Crown Land Legacy Trust, having invested a total of $28.7 million.

Projected term debt borrowing requirements for fiscal year 2015–2016 are expected to be $886.0 million. The Department of Finance and Treasury Board does not anticipate drawing down discretionary sinking funds in 2015–2016. Schedule 3B also shows the projected borrowing program for 2016–2017 to 2018–2019. The borrowing program starts with the provincial budgetary deficit that increases requirements or a surplus that reduces requirements. There are numerous cash versus accrual adjustments (non-budgetary items) that need to be made to determine the actual cash requirements of the General Revenue Fund. Each year there are requirements for the excess of capital expenditure over capital amortization, referred to as the net acquisition of tangible capital assets; those requirements in 2015–2016 are $59.2 million. The remaining non-budgetary adjustments are primarily related to non-cash interest charges on unfunded pension liabilities and post-employment benefits, and the non-cash expense of the Pension Valuation Adjustment.

The province, through its access to capital markets, is able to raise financing in an efficient and cost-effective manner; as such the province, through its annual borrowing program, secures wholesale funding on behalf of its Crown corporations for their diverse on-lending requirements. Historically, Crown corporations have utilized approximately 10 to 25 per cent of the province's annual borrowing program. Net capital advances to Crown corporations for 2014–2015 were estimated at $201.4 million and forecast at $156.1 million. For fiscal year 2015–2016, net capital advances are estimated to be $178.9 million. Some of the more notable Crown corporations that finance their on-going lending operations through the province's annual borrowing program are Nova Scotia Business Incorporated, Innovacorp, Nova Scotia Farm Loan Board, Nova Scotia Fisheries and Aquaculture Loan Board, Nova Scotia Housing Development Corporation, and the Nova Scotia Municipal Finance Corporation.

The Halifax-Dartmouth Bridge Commission, a provincial Crown corporation, received government authority to borrow up to $200.0 million from the Department of Finance and Treasury Board for the re-decking of the Angus L. Macdonald Bridge, with work started in early 2015. On January 30, 2015, with receptive markets and a favourable low interest rate environment, the Department of Finance and Treasury Board raised funds by debenture issuance in Canadian capital markets to lock-in interest rates and provided a $160.0 million loan to the Halifax-Dartmouth Bridge Commission. The Halifax-Dartmouth Bridge Commission loan is structured as a 20-year serial loan with annual principal payments beginning June 1, 2019; the blended interest rate on the loan is 2.80 per cent. The Halifax-Dartmouth Bridge Commission has invested the excess funds from the loan with the General Revenue Fund, with funds to be drawn down by the Halifax-Dartmouth Bridge Commission as required to fund re-decking costs as they come due.

While the province demonstrated access to capital markets in fiscal year 2014–2015 by efficiently raising the monies by way of private placements and public markets, the province continues to maintain access to a diversity of borrowing sources, both domestically and in foreign markets. This access is a key factor in achieving lower financing costs and maintaining a broad demand for Nova Scotia debt issues.

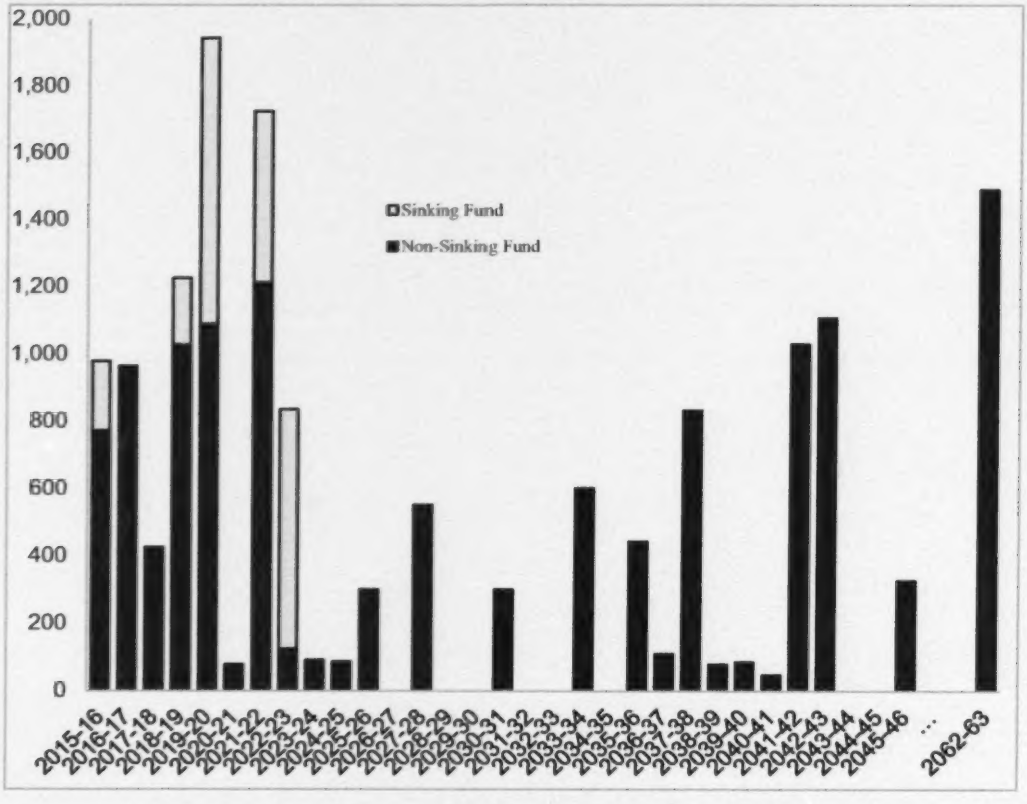
The province maintains documentation with the Securities and Exchange Commission (SEC) in the United States to provide access to the US and global bond markets. Although Nova Scotia maintains documentation to borrow in foreign markets, the domestic Canadian debt market is expected to be the primary source of funding for the province's borrowing program in 2015–2016. The province attempts to maintain a presence in the domestic public debt markets with liquid benchmark issues. The domestic Medium Term Note (MTN) program is maintained to add flexibility to the domestic borrowing programs.

2. Maturity Schedule

The Province of Nova Scotia's gross financial market debt at March 31, 2015, consisted of Canadian fixed-coupon marketable debentures, floating interest rate marketable debentures, foreign currency denominated fixed-coupon marketable debentures (all of these issues are hedged to Canadian dollars), Canada Pension Plan non-marketable debentures, capital leases ($195.0 million), and short-term promissory notes. Chart 3A, titled General Revenue Fund Debt Portfolio: Debenture Debt Maturity Schedule, displays the maturity profile of the province's debenture debt portfolio ($15.6 billion). The province's debenture portfolio is shown for those debt issues that have no mandatory sinking fund provisions ($13.2 billion), and the nine remaining debentures issues that have a mandatory sinking fund contribution by way of bond covenant ($2.48 billion). The province has no debt issues outstanding with put options.

Chart 3A General Revenue Fund Debt Portfolio:

Debenture Debt Maturity Schedule ($millions)



As of March 31, 2015, the average term to maturity of the gross debenture portfolio was 14.9 years, down from 15.4 one year ago.

The Province of Nova Scotia has accumulated and actively manages a large offsetting asset position in discretionary sinking funds, primarily the Sinking Fund General and the Public Debt Management Fund (PDMF). These funds are available to smooth the maturity schedule by reducing the necessity to borrow in financial markets in any given year.

Debt maturities, including principal repayments on capital leases, over the next three years are $1,007.6 million in the fiscal year 2015–2016, $994.8 million in the fiscal year 2016–2017, $459.7 million in the fiscal year 2017–2018, and $1,259.1 million in the fiscal year 2018–2019 (see Schedule 3B). In addition to the rollover of term debt, the borrowing program also includes the principal repayments under capital leases.

There are sizable maturities in US dollars in the fiscal years 2016 to 2023 that, by bond covenant, are fully funded with sinking funds at maturity. The next maturity of a US sinking fund debenture is a US $150.0 million debt issue maturing on March 15, 2016. The province is

required to contribute to the sinking fund of each such issue annually until such time as the full principal value of the bonds is accumulated. As such, the refinancing of these issues is spread over the entire life of each bond, and it is not necessary for the province to refinance these issues in the year of maturity.

3. Foreign Currency Exposure

The Canadian dollar payable debt has represented 100 per cent of the debt portfolio since late 2007. By way of background, the province historically carried large foreign currency exposures, and peaked at over 70 per cent in the mid-1990s. While the province has no foreign currency exposure, Section 44 of the *Finance Act* continues to limit this exposure, stating: "Unless the foreign currency exposure of the public debt is less than twenty per cent, no further transactions that increase foreign currency exposure may be executed. No borrowing in a foreign currency may be executed that cause the foreign currency exposure of the public debt to exceed twenty per cent."

4. Interest Rate Mix

The debt portfolio's net exposure to floating interest rates increased marginally over the past year, and ended the year at 10.3 per cent on March 31, 2015. The province includes fixed interest rate term debt and fixed income assets maturing in less than one year in its measure of floating interest rate debt to more accurately reflect exposure to resetting interest rates. In the past the province has been able to exercise tight control of this variable in the portfolio by maintaining access to capital markets and through its extensive derivative capabilities.

The current level of floating interest rate debt is temporarily below the mid-point of the province's floating interest rate exposure policy, and the Department of Finance and Treasury Board intends to raise the level of floating interest rate debt in 2015–2016. The interest rate exposure policy sets the dollar volatility of debt-servicing costs, and the implied floating interest rate exposure is in the range of zero to 35 per cent of total debt outstanding. The Department of Finance and Treasury Board targets the mid-point of the policy range.

5. Derivative Exposure

Derivative is a broadly used term for any financial contract where future cash flows (and thus its value) are derived from a specific underlying reference point or benchmark, for example, interest rate, foreign currency rate, financial asset, index, forward, future, or any other agreed upon reference point. Derivatives allow the Province of Nova Scotia to identify and synthetically isolate and manage the market risks in financial instruments for the purpose of hedging, risk transfer, arbitraging interest rate differences, and adjusting portfolio risks. Derivative transactions are used when it is viewed to be more effective and can be done at a lower cost than would be possible by a market transaction.

At March 31, 2015, the province's use of derivatives was for two purposes: (1) the hedging of foreign currency debt issues to Canadian dollars, and (2) asset-liability management purposes. The latter derivative transactions are designed to protect the provincial budgetary surplus from changes in interest rates associated with the Department of Finance and Treasury Board's on-lending program to Crown corporations. The province does not use derivatives for speculative purposes.

Currently, the province is party to approximately $5.2 billion notional face value of derivative transactions, down from a peak of $6.5 billion at March 31, 2011. The decline in swap counterparty exposure is due primarily to the maturity of three foreign currency debt issues and the maturity of some other interest rate swaps. The province's current cross currency swap portfolio is approximately $3.7 billion notional face value, and assuming no further foreign currency denominated debenture issuances, the cross currency swap portfolio would wind down to zero by July 30, 2022.

The Department of Finance and Treasury Board credit policy states that it executes derivative transactions only with well-rated counterparties. The Liability Management and Treasury Services Division actively manage the credit risks of the derivative portfolio. The Debt Management Committee reviews all counterparty exposure and limits. When the counterparty has a split credit rating, the province considers the most conservative among the ratings.

Structure of Debt Management and Sinking Funds

Until March 31, 2002, the province provided sinking fund instalments for all its term debt issues including Canada Pension Plan (CPP) and Medium Term Notes (MTN) issues. These funds were held against each specific bond for the bond's principal repayment at maturity. The province ceased sinking fund contributions to these debt maturities in 2002–2003 and reassigned the existing sinking funds held to the Sinking Fund General. The latter is available to retire debt at the discretion of the Minister of Finance and Treasury Board.

As of March 31, 2003, funds held for public issues without a sinking fund bond covenant were also moved to the Sinking Fund General. The province continues to make sinking fund instalments on the remaining nine debentures that contain sinking fund bond covenants. The last of those debentures matures on July 30, 2022. On these sinking fund issues, annual sinking fund instalments are required to be either the minimum of 0.75 or 1 per cent of the par value of each original issue, or in the case where the existing sinking fund plus interest and reinvested interest to be earned thereon, together with the sinking fund contribution to be paid into the sinking fund and reinvested interest to be earned thereon, would be in excess of the principal amount of the debenture outstanding at maturity, the amount to be paid by the province on such payment date may be reduced by the amount of such excess. The contribution rates on the remaining nine sinking fund debentures ranges from zero to 2.3 per cent of the par value, with these rates being based on actual cash flows on the existing sinking fund assets and the anticipated rates of return on expected future cash flows of sinking fund assets. These figures are recalculated annually based on actual and expected investment returns. Sinking fund payments relating to debentures payable in US dollars were adjusted each year to reflect exchange rate movements from the date of issuance of the debentures to the date of being hedged to Canadian dollars. Sinking funds required by bond covenant are treated as restricted assets and are used solely for the retirement of specific debt issues.

At March 31, 2015, the estimated book value of the sinking funds was $2,677.0 million, of which $1,822.0 million were held in sinking funds established by way of bond covenant, and $855.0 million in the discretionary sinking funds that were held for policy purposes. The policy objectives of both discretionary funds (the Sinking Fund General and the PDMF) are to manage interest rates, manage short-term liquidity, and assist in the refunding of maturing debt, while at the same time providing an appropriate level of investment return to the General Revenue Fund.

The assets of the sinking funds and PDMF are invested in high-quality investments. Those investment guidelines are subject to approval by the Debt Management Committee. All assets were invested either in federal or provincial debt obligations. Corporate bonds with a credit rating of at least "AA-" may be held in the sinking funds, but at March 31, 2015, there were no corporate bond holdings. The Sinking Fund General also holds $21.5 million of debt of the Halifax-Dartmouth Bridge Commission. The PDMF is typically invested in Government of Canada and provincial bonds. At March 31, 2015, cash and equivalents in the sinking funds and PDMF were $140.2 million.

The Nova Scotia Municipal Finance Corporation (NSMFC), a provincial Crown corporation, acts as a central borrowing agency for municipalities and municipal enterprises in Nova Scotia. Under the incorporating legislation, municipalities and municipal enterprises are required to

raise their long-term capital requirements through the NSMFC except for borrowings from the federal government, the province, another municipality, or their agencies. The NSMFC issues serial debentures to fund these cash requirements; the NSMFC has the legislative authority and ability to issue such securities through capital markets with the assistance of a provincial guarantee. There has never been a default by the NSMFC on any of its obligations.

In recent years, the province, although having no obligation to do so, has purchased all NSMFC debenture issues in their entirety and at March 31, 2015, held a portfolio of $808.0 million NSMFC debentures in the General Revenue Fund, up from $789.0 million from a year earlier. The NSMFC asset portfolio held by the Department of Finance, along with sinking funds and Public Debt Management Fund, are netted against the gross financial market debt of the province to arrive at net financial market debt. Much the same as the NSMFC asset portfolio, the financial market debt issued by the province under its own name to fund the re-decking of the Angus L. Macdonald Bridge would be netted against the loan provided to the Halifax-Dartmouth Bridge Commission.

Debt-Servicing Costs

Gross debt-servicing costs comprise the following items:

(1) interest on existing long- term debenture and capital lease debt and the estimated interest cost of incremental borrowing;

(2) general interest that provides for bank charges, bond issue expense, amortization of debenture discounts/premiums, and short-term interest costs; and

(3) the accrual of interest of the province's unfunded pension and post-retirement benefit obligations.

In 2015–2016, the province will incur $138.0 million in debt-servicing costs related to the accrual of interest on pension, retirement, and other obligations. The province accounts for its pension obligations and related expenses on an accrual basis in accordance with PSAB Section 3250. In accordance with this section, the province uses a smoothed market value to value the plan assets of the pension plans and determine the expected return on plan assets. Asset smoothing involves using market-related values instead of market values to calculate the expected return on pension plan assets. Using market-related values entails recognizing changes in the actual fair value of the plan assets in a rational and systematic manner over a period of five years. This approach impacts the pension expense in terms of the net debt-servicing costs and the amortization of actuarial gains and losses of the plan. Given the long-term nature of pension and pension accounting, this is a more fiscally responsible approach and alleviates the effects of significant market fluctuations, both positive and negative, and helps maintain stability and predictably in the budget process.

As noted above, the province has established mandatory sinking funds on some debt issues and maintains discretionary sinking funds for liability management purposes. The interest on those sinking funds is often netted against gross debt-servicing costs to arrive at net debt-servicing costs.

Schedule 3A Projected Debt Servicing Costs
($ millions)

	2014-2015 Estimate	2014-2015 Forecast	2015-2016 Estimate	2016-2017 Estimate	2017-2018 Estimate	2018-2019 Estimate
Interest on Long-term Debt	731.0	718.8	726.9	723.0	737.8	750.4
General Interest	11.9	10.8	7.7	8.7	10.3	12.1
Interest on Pension, Retirement and other obligations	135.1	133.0	138.0	141.1	143.1	146.2
Gross Debt Servicing Costs	878.0	862.6	872.6	872.8	891.2	908.7
Less: Sinking Fund Earnings	(106.2)	(105.1)	(99.5)	(92.7)	(98.4)	(103.0)
Net Debt Servicing Costs	771.8	757.5	773.1	780.2	792.7	805.7

In addition, gross debt-servicing costs also supports the General Revenue Fund's on-lending activities to Crown corporation. That is, the General Revenue Fund incurs interest charges on long-term debt obligations that have been borrowed on behalf of Crown corporations such as the Nova Scotia Municipal Finance Corporation and Farm Loan Board. The General Revenue Fund earns interest on those monies lent to Crown corporations and other investments in amounts of $72.7 million in the 2014–2015 forecast, and $79.0 million in the 2015–2016 Budget Estimate. Unlike the earnings on sinking fund assets, the income from the on-lending activity is not typically shown as netted against debt-servicing costs. To achieve a true picture of the actual interest cost on long-term indebtedness, these amounts should be subtracted from gross debt-servicing costs.

Debt-Servicing Costs: Assumptions and Sensitivity Analysis

Actual debt-servicing costs will vary from estimated amounts due to the dependence of debt-servicing costs on certain financial market variables and changes in the amount borrowed.

With the elimination of the province's foreign currency exposure, the main factor in debt-servicing cost sensitivity is the overall level of Canadian short-term interest rates and 10-year Canada bond yields during the fiscal year. Sensitivity to these variables (how much debt-servicing costs would change if a variable changed from the assumed level for a full year) is $15.0 million if Canada Treasury Bills were a full percentage point higher relative to the assumed level, and $3.5 million if Canada fixed interest bond yields rose by one percentage point.

Risk Management

The Debt Management Committee supports the governance and oversight function for the debt management of the Province of Nova Scotia. The committee helps ensure that the province's treasury management is based on sound financial principles and is conducted in a prudent manner, balancing the costs and risks within acceptable control standards. The committee has responsibilities for the following key governance roles: strategic planning, risk management, internal control, and communications. These functions ensure that the governance and oversight roles of treasury management operations are independent of operational staff.

Schedule 3B Projected Borrowing Requirements

($ millions)

	2014-2015 Estimate	2014-2015 Forecast	2015-2016 Estimate	2016-2017 Estimate	2017-2018 Estimate	2018-2019 Estimate
Budgetary (surplus)/deficit	279.0	102.1	97.6	(22.6)	(25.3)	(66.1)
Net Capital Advances	201.4	156.1	178.9	100.0	100.0	100.0
NS MFC Repayments	(96.6)	19.0	(108.2)	(96.5)	(90.2)	(83.6)
HDBC Net Advances	-	26.7	69.0	59.9	4.4	-
Tangible Capital Assets: Net Cash	116.9	97.5	59.2	199.2	41.1	38.2
Other Non-Budgetary Transactions	(142.2)	109.3	(138.1)	(331.5)	(187.9)	(168.6)
Cash Operating Requirements	358.5	510.7	158.3	(91.5)	(158.0)	(180.1)
Cash Debt Retirement	578.1	578.1	1,007.6	994.8	459.7	1,259.1
Mandatory Sinking Fund Income	88.0	88.0	89.8	82.3	85.3	86.8
Mandatory Sinking Fund Contributions	27.5	29.8	26.3	26.3	26.3	24.0
Mandatory Sinking Fund Withdrawals	-	-	(205.7)	-	-	(198.0)
Net Mandatory Fund Requirements	115.5	117.8	(89.6)	108.6	111.6	(87.1)
Discretionary Fund Income	18.2	17.1	9.7	10.3	13.1	16.2
Discretionary Fund Contributions	-	-				
Discretionary Fund Withdrawals	-	-				
Net Discretionary Fund Requirements	18.2	17.1	9.7	10.3	13.1	16.2
Total Requirements:	1,070.3	1,223.8	1,086.0	1,022.2	426.5	1,008.1
Short-Term Borrowing (inc) / dec:	(300.0)	(123.8)	(200.0)	-	-	-
Total Term Debt Requirements	**770.3**	**1,100.0**	**886.0**	**1,022.2**	**426.5**	**1,008.1**

Schedule 3C Projected Gross And Net Financial Market Debt
($ millions)

	2014-2015 Estimate	2014-2015 Forecast	2015-2016 Estimate	2016-2017 Estimate	2017-2018 Estimate	2018-2019 Estimate
Gross Debt:						
Opening Balance	15,634.3	15,634.3	16,343.7	16,382.9	16,373.7	16,254.7
Borrowing Program	770.3	1,100.0	886.0	1,022.2	426.5	1,008.1
Debt Retirement	(578.1)	(578.1)	(1,007.6)	(994.8)	(459.7)	(1,259.1)
Change in other unfunded debt	203.4	187.6	160.8	(36.6)	(85.8)	(83.6)
Closing Balance	16,029.9	16,343.7	16,382.9	16,373.7	16,254.7	15,920.0
Mandatory Sinking Funds:						
Opening Balance	1,703.9	1,703.9	1,821.7	1,732.1	1,840.8	1,952.4
Installments	29.8	29.8	26.3	26.3	26.3	24.0
Earnings	88.0	88.0	89.8	82.3	85.3	86.8
Sinking Fund withdrawals	-	-	(205.7)	-	-	(198.0)
Closing Balance	1,821.7	1,821.7	1,732.1	1,840.8	1,952.4	1,865.3
Discretionary Funds:						
Opening Balance	838.2	838.2	855.3	865.0	875.3	888.4
Installments	-	-	-	-	-	-
Earnings	18.2	17.1	9.7	10.3	13.1	16.2
Fund withdrawals	-	-	-	-	-	-
Closing Balance	856.4	855.3	865.0	875.3	888.4	904.6
NSMFC Assets:						
Opening Balance	789.1	789.1	834.9	795.6	759.0	673.2
Repayments	(96.6)	(96.6)	(108.2)	(96.5)	(90.2)	(83.6)
Advances to MFC	-	115.6	-	-	-	-
Advances to HDBC		26.7	69.0	59.9	4.4	-
Closing Balance	692.5	834.9	795.6	759.0	673.2	589.6
Net Financial Market Debt	**12,659.3**	**12,831.9**	**12,990.2**	**12,898.6**	**12,740.7**	**12,560.6**

Schedule 3D Projected Net Debt
($ millions)

	2014-2015 Estimate	2014-2015 Forecast	2015-2016 Estimate	2016-2017 Estimate	2017-2018 Estimate	2018-2019 Estimate
Net Debt - Opening Balance	14,608.6	14,761.8	14,961.4	15,118.2	15,294.8	15,310.6
Add (Deduct):						
Provincial Deficit (Surplus)	279.0	102.1	97.6	(22.6)	(25.3)	(66.1)
Increase in the Net Book Value of Tangible Capital Assets	116.9	97.5	59.2	199.2	41.1	38.2
Change in Net Debt	395.9	199.6	156.7	176.6	15.8	(27.8)
Net Debt - Closing Balance	15,004.5	14,961.4	15,118.2	15,294.8	15,310.6	15,282.8

Economic Outlook

Highlights

Nova Scotia has taken advantage of the recovery in the US economy through strong export growth in 2014. However, the impacts of an aging demographic were apparent in weak labour markets, retail spending, and residential investment.

In 2015, the Budget economic outlook expects real Gross Domestic Product (GDP) growth to accelerate, reaching 1.7 per cent as major project investments get underway, notably construction of the Nova Centre, vessel construction at the Halifax Shipyard, and re-decking of the Macdonald Bridge. Export growth is not expected to continue in 2015 as falling natural gas output offsets non-energy export growth fuelled by continuing recovery in the US. With weaker price inflation, nominal growth is expected to be just 2.7 per cent in 2015.

In 2016, major project investment continues to be the driver of growth, particularly with a full year of vessel construction at the shipyard. Real GDP growth is forecasted to be 1.5 per cent while nominal growth rises to 3.4 per cent.

Background: Global and Market Conditions

Nova Scotia's economy is connected to the broader global economy through a variety of channels—directly through trade and indirectly through financial markets, commodity prices, and exchange rates.

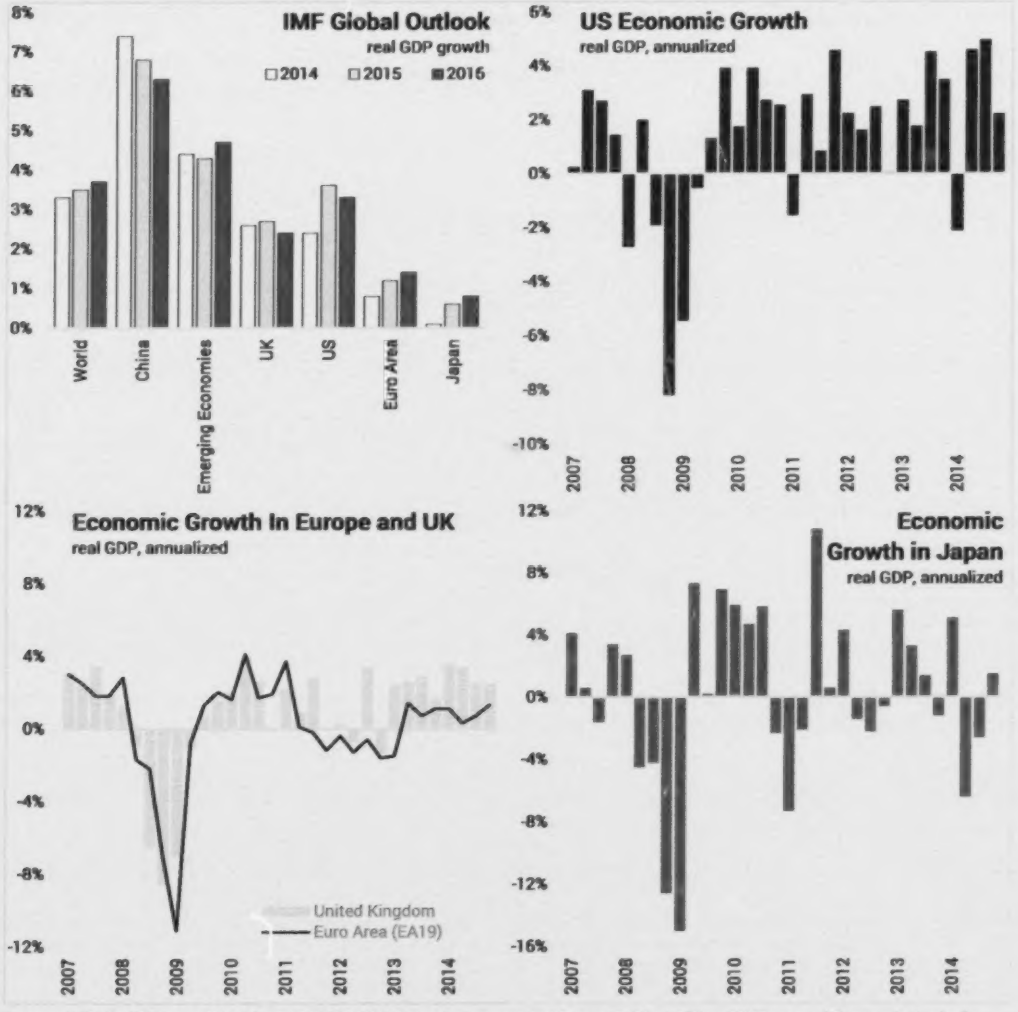
Global economic growth in 2014 was similar to 2013: accelerating growth among advanced economies offset by slower growth in emerging economies. This trend is expected to continue in 2015 with the International Monetary Fund forecasting advanced economies growing at faster pace than in 2014. Emerging economies' growth is expected to slow down. The International Monetary Fund (IMF) forecasts world output growth of 3.5 per cent in 2015 and 3.7 per cent in 2016 (Chart 3C).

In 2014, the euro area grew at its fastest pace since 2011: 0.9 per cent. Persistent deflation pressures, elevated unemployment, unutilized capacity, high debt levels, and tight credit conditions prompted the European Central Bank to lower the monetary policy interest rate and introduce an asset purchasing program. With quantitative easing expected to lift growth and stave off deflation, the euro area is expected to grow faster in 2015 and 2016. Lower oil prices, increasing disposable incomes, corporate profitability, and depreciation-fuelled export growth will support the euro area economy.

In other advanced economies, the United Kingdom grew at 2.8 per cent in 2014, its fastest pace since 2006. The British manufacturing sector ended two years of decline, and Britons posted solid household spending gains. Japan's economy was flat in 2014 during the implementation of major economic reforms. The Bank of Japan has moved to monetary easing to end decades of low inflation, and the Japanese Government is enacting structural reforms to improve labour markets and investment, and reduce deficits. A mid-year consumption tax increase caused

a significant decline in household consumption and residential investment. In the last half of 2014, exports were up due to the lower yen, and the trade deficit declined. The Japanese economy stands to benefit in 2015 from lower world oil prices and a depreciated currency.

Chart 3C Global Economic Conditions



Source: IMF World Economic Outlook; Eurostat database; Government of Japan, Cabinet Office; US Bureau of Economic Analysis

China's growth will continue to slow as the economy makes a transition from government-financed investment and construction to output that relies more on satisfying consumer demand. Credit growth slowed in 2014, but the financial sector remains vulnerable. For

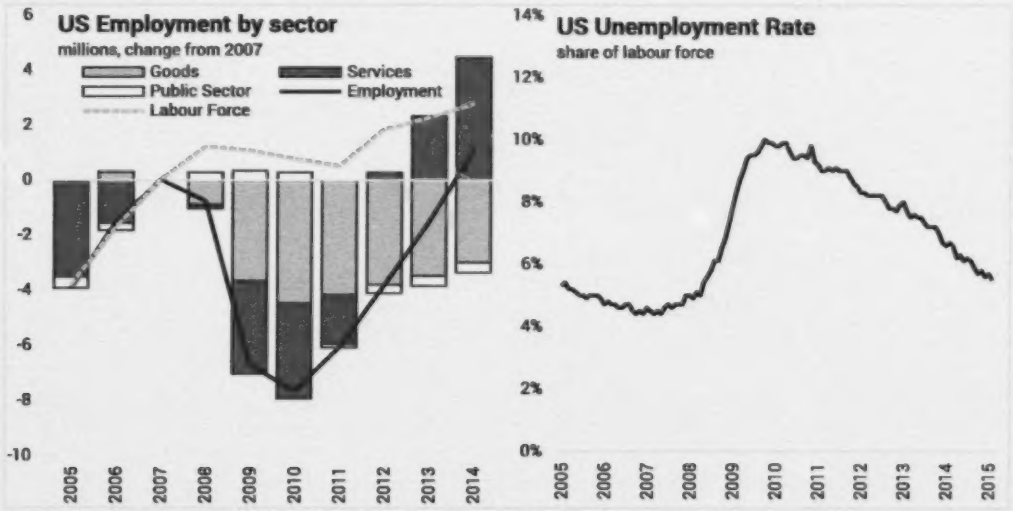
oil-exporting emerging market economies, lower oil prices have weakened investment and government revenues; some face financial disruptions, capital outflows, and currency depreciation.

United States (US)

The outlook for Nova Scotia's most important international trading partner continues to improve. US growth advanced 2.4 per cent in 2014. After declining in the first quarter of 2014 due to poor weather conditions, GDP growth was in line with expectations for the final three quarters of the year. Personal consumption and business investment made the primary contributions to US economy with US federal government spending declining but at a much slower rate than the past several years.

The US economy recovered all lost jobs from the economic downturn and has added around three million positions compared to pre-recession levels. Employment gains have been concentrated in private services sector, while manufacturing and construction employment have yet to return to pre-recession levels (Chart 3D). Job growth has lowered the unemployment rate but many potential workers are still not participating in the labour market. Average wage growth remains around 2 per cent, signaling persistent slack in the labour market amid the falling unemployment rate.

Chart 3D US Labour Markets



Source: US Bureau of Labour Statistics - Current Employment Statistics Survey, Current Population Survey

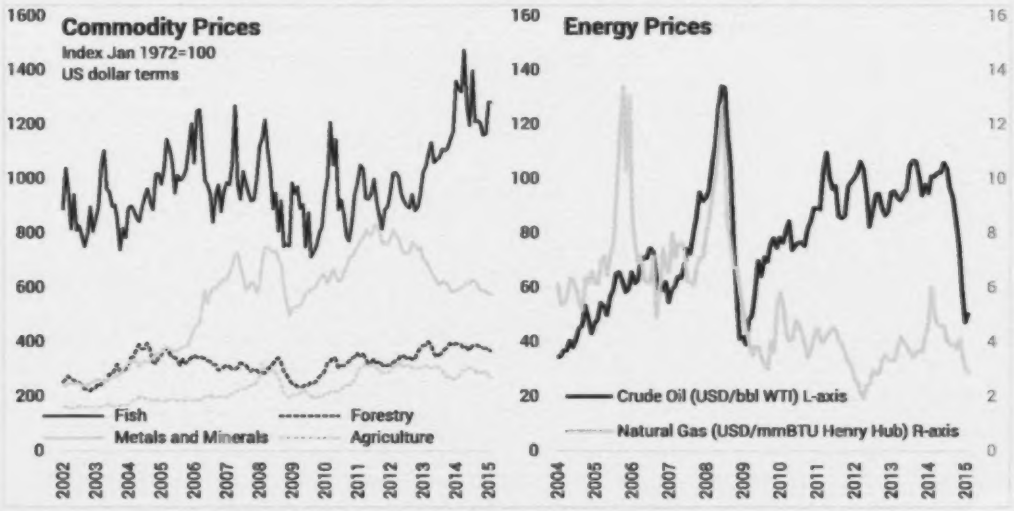
The US economy is expected to continue to strengthen in 2015, benefitting from lower oil prices, improving credit conditions, business confidence, higher household formations, and positive government spending. The higher US dollar may be a drag on export growth. The latest private-sector consensus (as of February 12, 2015) has the US outlook brighter than Canada's with US real GDP growth of 3.2 per cent in 2015 and 2.8 per cent in 2016.

Commodity Markets

Crude oil prices fell over the final quarter of 2014 on substantial increases in supply. Crude oil prices averaged US$50.58 per barrel (West Texas Intermediate) in February 2015 compared to US$100.82 in February 2014 (Chart 3E). Oil prices are projected to move higher over the medium term as a portion of current production becomes uneconomical at current prices and as oil companies reduce investment in new projects. Over the short term, prices could fluctuate due to high inventory levels or geopolitical events.

International prices of several of Nova Scotia's key commodities were higher in 2014. US market natural gas prices were up 17.8 per cent in 2014, despite rising US natural gas production. Natural gas prices are expected to move lower in 2015. Average fish product prices rose 16.4 per cent in 2014, while forestry product prices rose 1.7 per cent. Prices for non-energy commodities are expected to remain subdued over the first half of 2015 before gradually picking up with a strengthening global economy.

Chart 3E International Commodity Markets

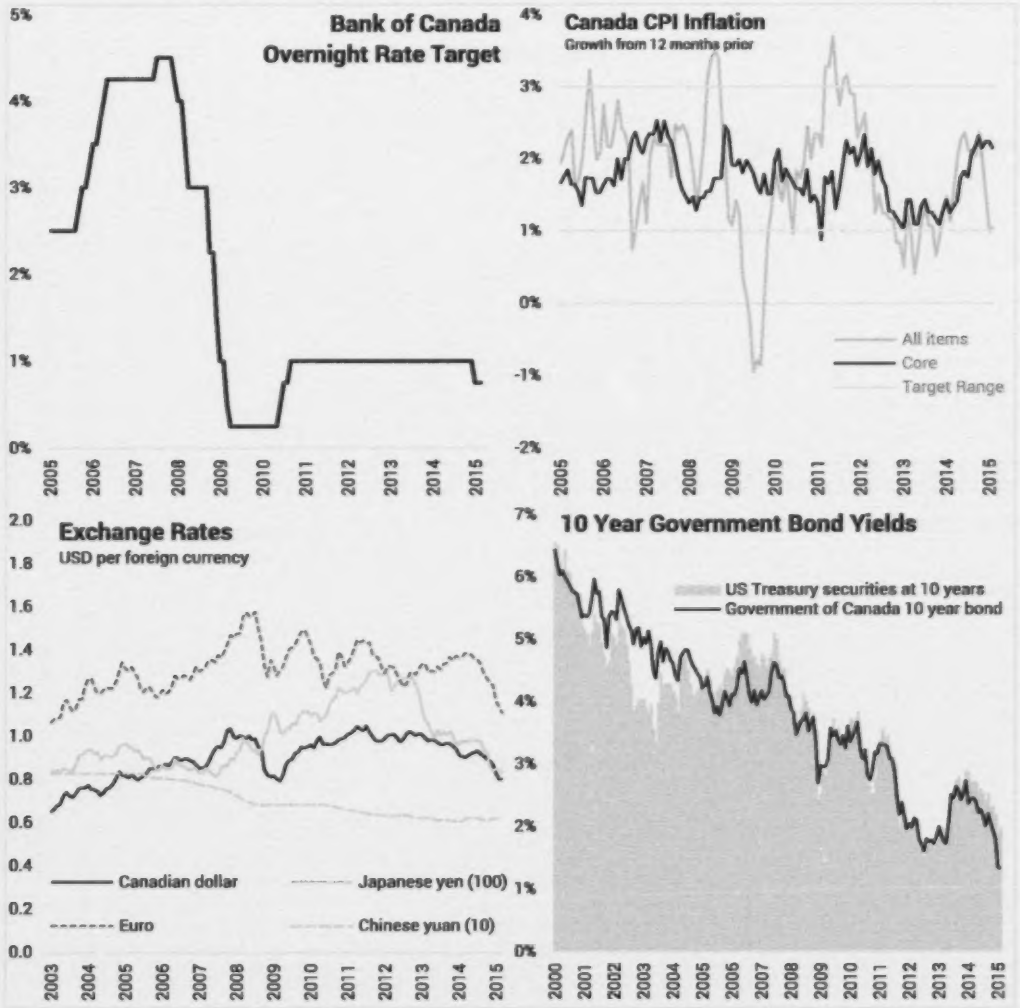


Source: US Energy Information Administration; Statistics Canada, CANSIM 176-0075

Financial Markets

The Bank of Canada lowered its overnight target rate to 0.75 per cent in January 2015 as insurance against a downturn in the oil sector (Chart 3F). Financial conditions have eased with falling bond yields and a lower Canadian dollar. These should lift investment and non-energy exports. Most forecasts for the exchange rate have the Canadian dollar remaining around US$0.80 over the next two years. Inflation in Canada has dropped in recent months with falling oil prices, but the core Consumer Price Index (CPI) continues to be around 2 per cent.

Chart 3F Financial Markets



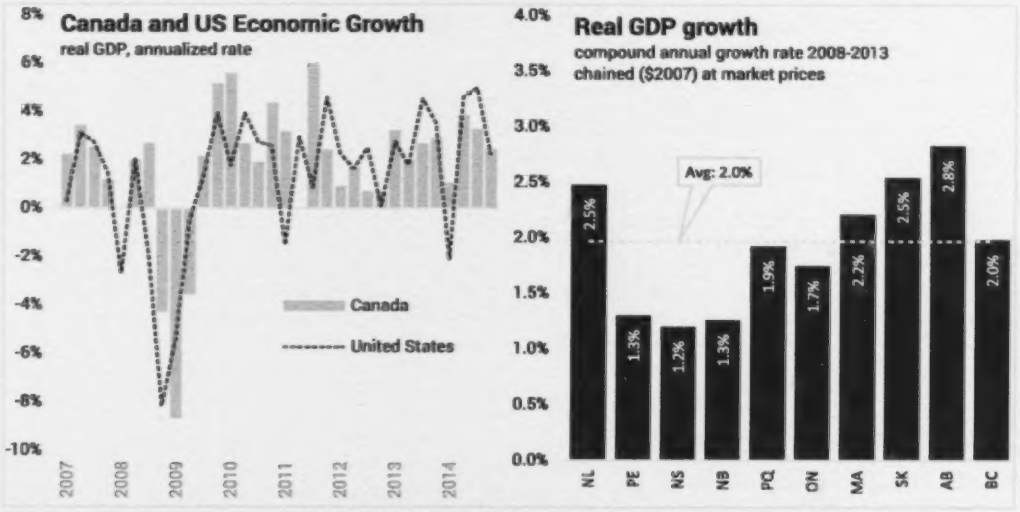
Source: Statistics Canada, CANSIM 176-0043 and 326-0020; Bank of Canada, Summary of Key Monetary Policy Variables; US Federal Reserve tables H.15 and H.10

US monetary authorities ended the program of purchasing mortgage-backed securities and long-term treasuries in October 2014, and there are expectations that federal funds target ranges will increase after six years. The US Federal Open Markets Committee assessment is that it can be patient before normalizing monetary policy given the current outlook for inflation. In contrast, Japanese and European monetary authorities have easing policy in place, and both the Yen and the Euro are depreciating against the US dollar.

Background: Canada

Since the 2009 recession, the Canadian economy has experienced a volatile recovery. Recovery solidified through much of 2014. Canadian real GDP finished 2014 with annualized growth of 2.4 per cent in the fourth quarter (Chart 3G). However, this pace is down from the accelerated growth of 3.8 per cent in the second quarter of 2014. Adjusting to the new reality of lower oil prices has dampened growth in the latter months of 2014.

Chart 3G Canadian Economic Growth



Source: Statistics Canada, CANSIM tables 380-0064, 384-0038; US Bureau of Economic Analysis table 1.1.6

Canada's recovery has been concentrated in the natural resource producing provinces: Alberta, Saskatchewan, and Newfoundland and Labrador. The larger provinces (Ontario, Québec, and British Columbia) have grown at an average pace of 1.7–2.0 per cent while growth in the Maritimes has been slower at 1.2–1.3 per cent.

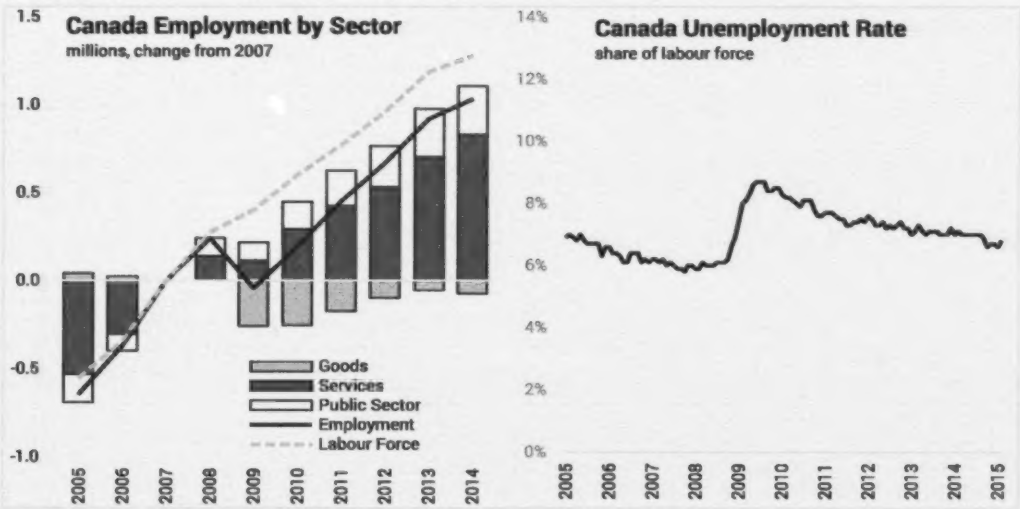
Canada's recovery was influenced initially by government stimulus investments and later by fiscal restraint. While growth in public spending has slowed as both federal and provincial governments repair deficits, Canadian domestic demand has been boosted from consumers taking advantage of low interest rates.

Business investments returned to 2007 levels in 2011, but investment recovery has been concentrated in non-residential structures—notably energy developments. External demand has returned to pre-recession levels with a stronger US economy and lower Canadian dollar.

With lower oil prices, foreign exchange rate declines, and shifting investment plans, provinces with manufacturing capacity and oil imports are positioned to benefit.

Since the recession, Canada's public and private service sectors have generated rising employment, contributing to a recovering unemployment rate (Chart 3H). Demographics may also be influencing Canada's labour markets; national participation and employment rates have been falling since the recession.

Chart 3H Canada Labour Markets



Sources: Statistics Canada, CANSIM tables 282-0002, 282-0012, 282-0087

External Assumptions for Nova Scotia's Economic Forecast

The Nova Scotia Economic Forecast assumptions are based on the background analysis of global and Canadian economic conditions (Table 3C).

Table 3C Nova Scotia Forecast External Assumptions

	2015	2016
US Real GDP (growth)	3.2%	2.8%
Canada Real GDP (growth)	2.1%	2.4%
Canada Nominal GDP (growth)	4.1%	4.5%
USD/CAD Exchange Rate	$0.811	$0.820
Natural Gas (USD/mmBTU, Henry Hub)	$2.90	$3.69
Crude Oil (USD/bbl, WTI)	$55.02	$71.00
Canadian Prime Lending Rate	2.8%	3.3%
5-year Conventional Mortgage Rate	4.9%	5.5%

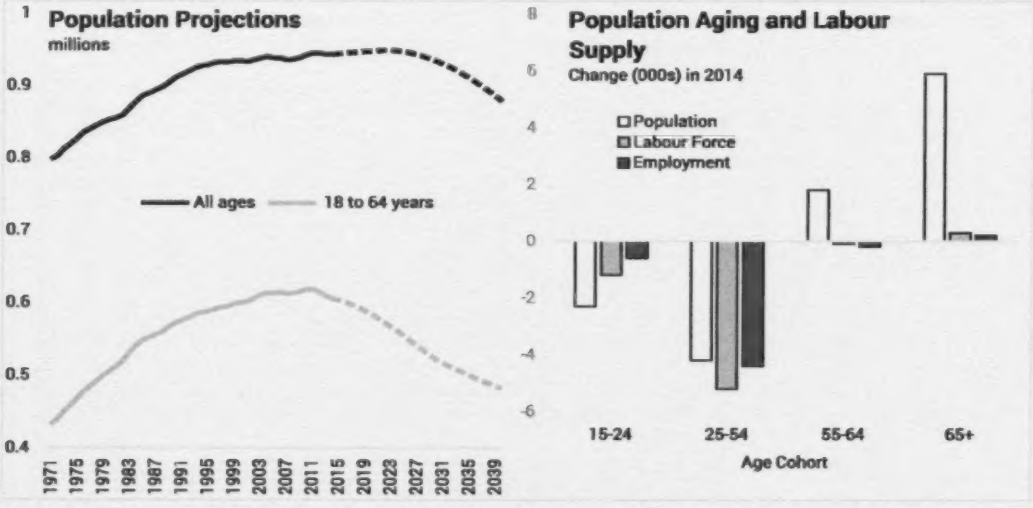
The Nova Scotia Budget Economic Forecast assumes 2.1 per cent Canadian real GDP growth rate in 2015 followed by 2.4 per cent growth in 2016. The slower pace for 2015 reflects the adjustment in production and investments in the oil sector due to lower oil prices. The lower dollar and a growing US economy are expected to add growth through non-energy exports into 2016.

Nova Scotia's Demographic Outlook

Nova Scotia's population growth has been very limited in recent years. Net international migration has been offsetting declines associated with natural population change and net interprovincial movement.

Statistics Canada reported that Nova Scotia's population stood at 942,668 as of July 1, 2014. This is a slight decrease from revised population estimates of 942,930 for the same date in 2013. Statistics Canada's historical revisions substantially reduced the estimated interprovincial out-migration reported for the 2012–2013 period.

Chart 3I Nova Scotia Demographics



Source: Statistics Canada, CANSIM tables 051-0001, 282-0002 and Department of Finance and Treasury Board projections

The Department of Finance and Treasury Board has revised its demographic projections to reflect this new data, but the pattern remains largely consistent with previous projections. Nova Scotia's population outlook continues to be marked by a significant decline in the population aged 18–64 (Chart 3I). As the baby boom cohort ages into traditional retirement years, they are expected to participate less in the labour market. A projected decline of over 100,000 in the 18–64 age cohort is likely to result in a significant change in the role that labour plays in production in Nova Scotia.

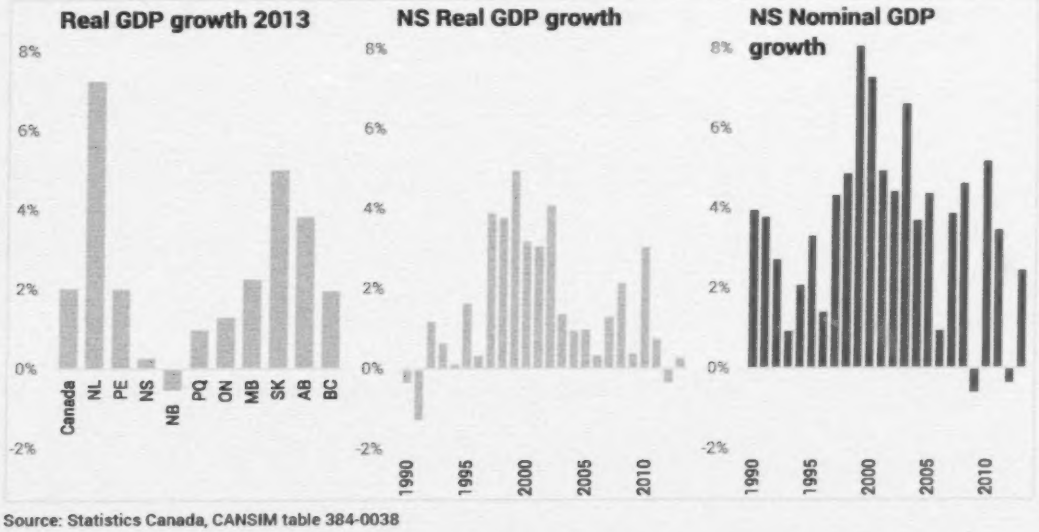
Net interprovincial migration is typically a drain on the Nova Scotia population during national economic expansions, a phenomenon that has been consistent since the 1970s. The Department of Finance and Treasury Board's population projections include an explicit assumption (which it has made for three years) that net interprovincial migration patterns will deviate from historical averages during the vessel construction phases at Halifax shipyard. This assumption is further reinforced by expected slowdown in investment among Western Canadian oil-producing provinces as prices sink and major projects move into production phases.

If the assumption of positive net interprovincial migration does not materialize, there is a risk that major project investments may not have the economic impacts currently projected.

Nova Scotia's Recent Economic Performance

The latest Provincial Economic Accounts (released: November 2014) provide estimates for the Nova Scotia economy in 2013, as well as historical revisions for prior years. In 2013, the Nova Scotia economy (real GDP) grew by just 0.3 per cent, slower than any province except New Brunswick (Chart 3J). Nova Scotia's economic growth in 2013 only offset the 0.3 per cent decline in output observed in 2012, leaving output largely unchanged from 2011 levels. In nominal terms, Nova Scotia's economy expanded by 2.4 per cent in 2013.

Chart 3J Nova Scotia Economic Growth



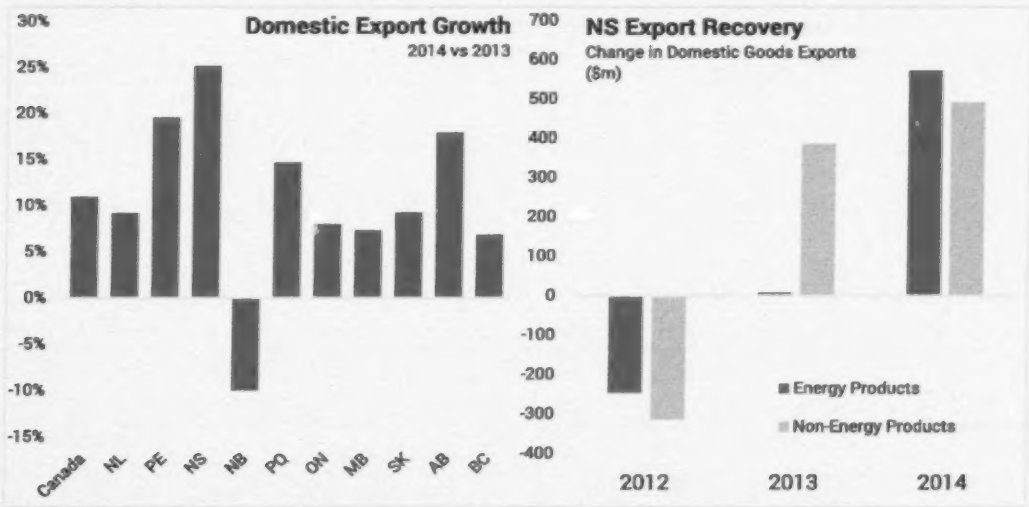
Source: Statistics Canada, CANSIM table 384-0038

In 2012, Nova Scotia's economy was weighed down by declining natural gas and utility output as well as reductions in federal government administration and military activities. In 2013 utilities and natural gas became positive contributors to output again, particularly with the commencement of production at Deep Panuke and renewed output at the Sable field. Manufacturing reported the largest drop in real output during 2013; there were additional declines in federal government and defence services as well as a number of private sector service industries. Where declining construction had been a drag on economic growth in 2012, it was a stronger contributor to growth in 2013. In both 2012 and 2013, the largest contributor to the province's economic growth was the imputed (i.e., inferred, rather than observed) value of housing services contributed by those who occupy the dwellings they own. Finance and insurance industries have also been strong contributors to growth in 2012 and 2013.

Economic accounts for 2014 will not be released until later this year, but there are a number of higher-frequency data series that provide signals about economic conditions for 2014.

In 2014, Nova Scotia enjoyed rebounding trade, gaining more international goods exports than any province in the country (Chart 3K). While exports received a significant lift from higher natural gas output at both of Nova Scotia's offshore fields, there were also substantial gains in non-energy exports.

Chart 3K Nova Scotia International Merchandise Exports



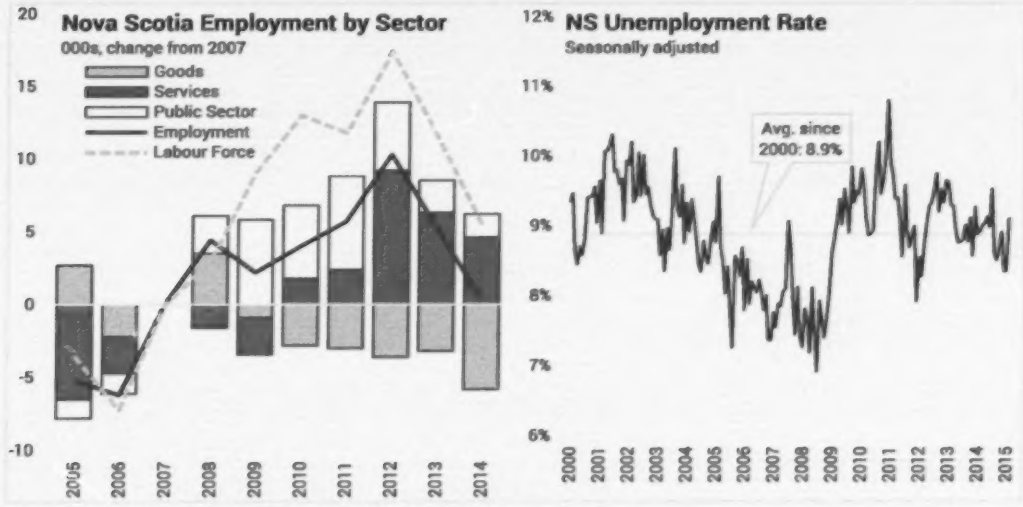
Source: Statistics Canada, CANSIM table 228-0060

Despite strong export growth, domestic economic indicators have deteriorated and are expected to offset some of the positive contribution from international exports. For the second consecutive year, Nova Scotia's labour markets reported declines in both labour force and employment (Chart 3L). The result is an unemployment rate that has changed little as employment and labour force decline in matching proportions. With average weekly wages for employees growing by 2.8 per cent, overall labour income grew by 2.2 per cent in 2014.

As the population ages into older cohorts that typically exhibit lower participation in the labour force, the labour supply will continue to shrink. In 2014, Nova Scotia started to exhibit signs of a tighter labour market with rising wage rates and job vacancy rates.

With declining employment and modest growth of employee compensation, Nova Scotia households have had limited resources with which to increase either current consumption or residential investments. In 2014, Nova Scotia retail sales growth was 2.2 per cent—the slowest growth among all provinces.

Chart 3L Nova Scotia Labour Markets



Source: Statistics Canada, CANSIM tables 282-0002, 282-0012, 282-0087

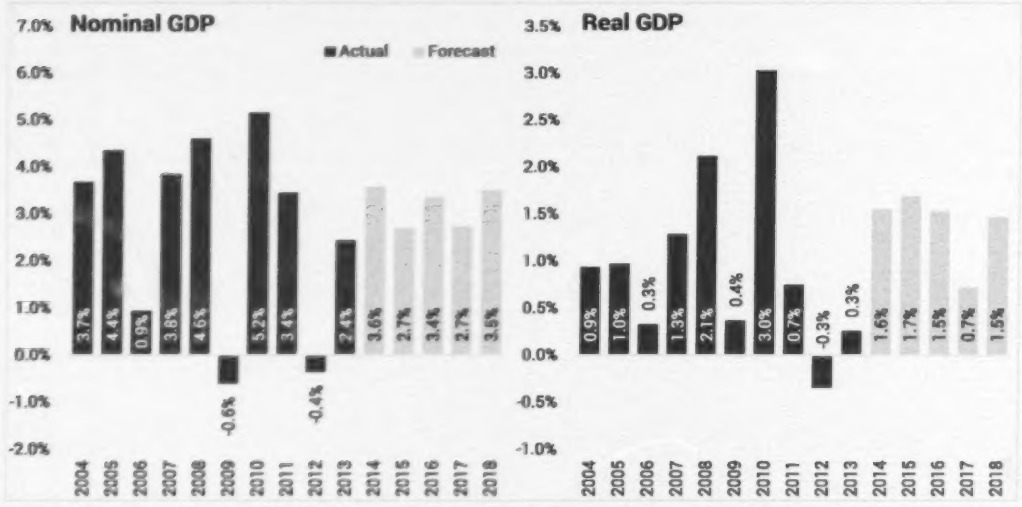
Nova Scotia's residential construction investment declined by 9.9 per cent in 2014—the steepest drop among provinces. In recent years, residential construction investment has been out of step with an aging demographic and limited family growth, resulting in additions to unsold inventory. From 2010–2013, there were large increases in the amount of apartment investment, but this contracted by over $100 million in 2014. Single-dwelling construction investments in Nova Scotia have been mostly in decline since 2010. Renovation investment (which made up about 60 per cent of residential construction in 2014) continues to grow.

Nova Scotia's Economic Outlook

Nova Scotia's economy has been at a standstill for two years: growth in 2013 just offset the decline reported in 2012. Starting in 2014, Nova Scotia is beginning to experience the effects of growth associated with major projects, starting with production of natural gas from the Deep Panuke field. In coming years, major project investments will play an increasingly important role in sustaining growth in the province. However, this carries the risks that the timing and economic impacts of these projects do not unfold as expected.

The Department of Finance and Treasury Board estimates that Nova Scotia's real GDP grew by 1.6 per cent in 2014. This is expected to continue with growth of 1.7 per cent in 2015 before slowing to 1.5 per cent in 2016 (Chart 3M). Nominal GDP growth (which includes the increase in both output volume and price) is assumed to have grown by 3.6 per cent in 2014. Falling oil and natural gas prices are expected to weigh on overall price growth, limiting nominal GDP growth to 2.7 per cent in 2015 before rebounding to 3.4 per cent in 2016. Over the medium term, the pace of economic growth is expected to be sensitive to peaks and plateaus of major construction activity. In addition, falling output of natural gas fields will slow growth in both the short and medium terms.

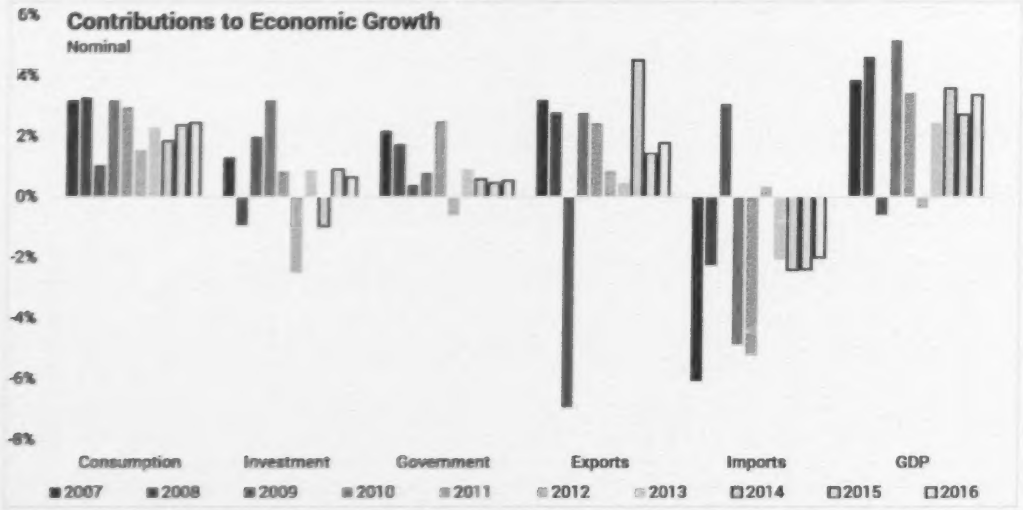
Chart 3M Nova Scotia Economic Outlook



Source: Statistics Canada, CANSIM table 384-0038 and Department of Finance and Treasury Board forecast

In 2014, exports and household consumption appear to be the primary determinants of growth, with little contribution from government spending, a drop from investment (particularly residential), and the always-present drag from rising imports (Chart 3N). In 2015 and 2016, export growth is expected to contribute less to growth while investments are boosted by major projects.

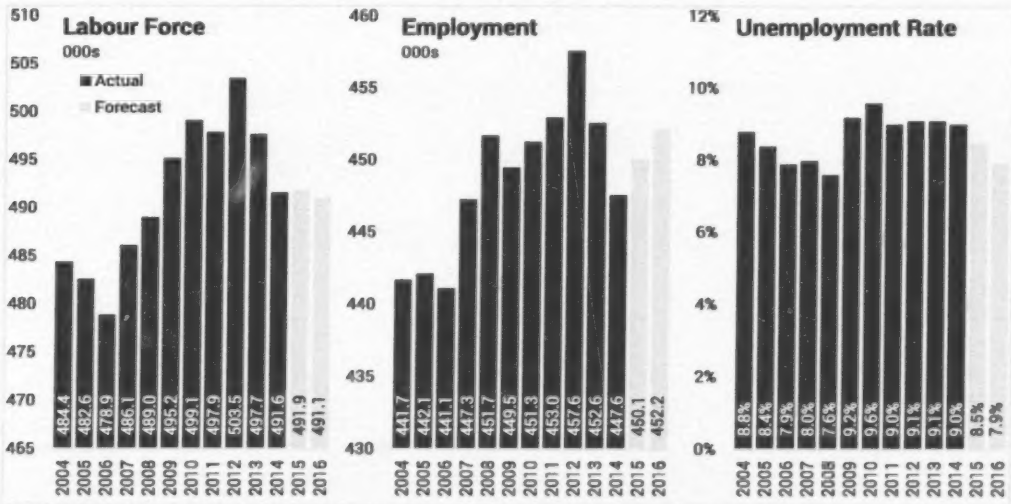
Chart 3N Sources of Nova Scotia Economic Growth



Source: Statistics Canada, CANSIM table 384-0038 and Department of Finance and Treasury Board forecast

Recent labour force reductions have limited the potential for employment growth, and the unemployment rate has remained stable near its long run average. In 2015 and 2016, the labour supply is expected to stabilize as migration to other provinces slows. This will aid modest employment growth as major projects require local labour. As a result of stable labour force and rising employment, the provincial unemployment rate is expected to fall to 8.5 per cent in 2015 and to 7.9 per cent in 2016 (Chart 30).

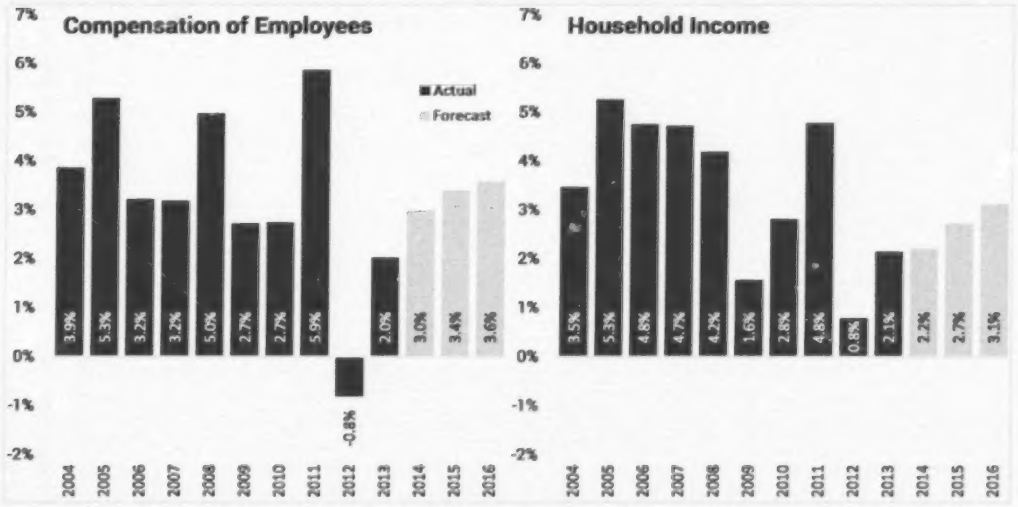
Chart 30 Nova Scotia Labour Market Outlook



Source: Statistics Canada, CANSIM table 282-0002 and Department of Finance and Treasury Board forecast

Employee compensation growth is assumed to have risen 3.0 per cent in 2014. Rising employment associated with major projects is expected to combine with wage growth driven by a tighter labour market to push employee compensation growth up to 3.4 per cent in 2015 and 3.6 per cent in 2016. However, this is subject to the risk (discussed below) that additional internal migrants may suppress wage growth in 2015 and 2016. Weakness in net mixed income is expected to moderate the overall pace of household income growth in 2015 and 2016 (Chart 3P).

Chart 3P Nova Scotia Household Income Outlook



Source: Statistics Canada, CANSIM tables 384-0037, 384-0042 and Department of Finance and Treasury Board forecast

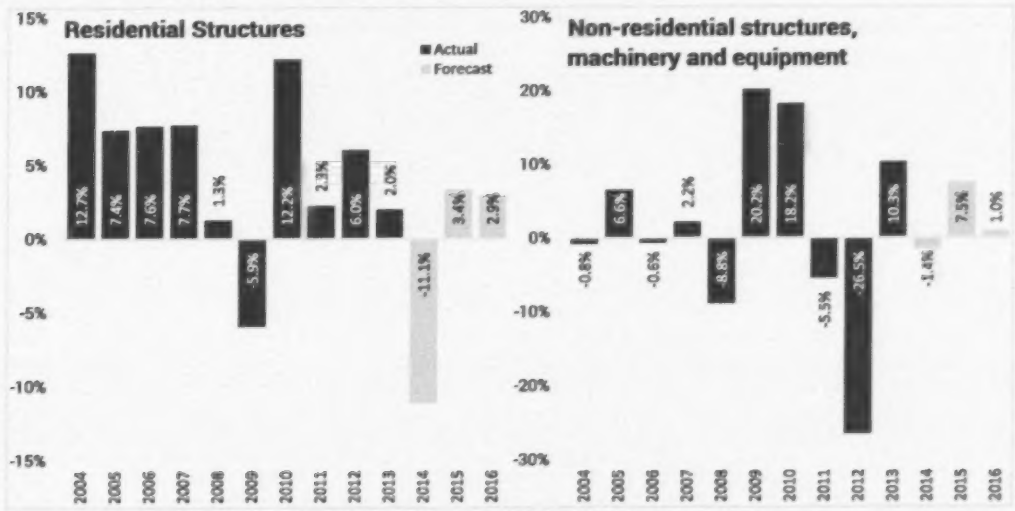
Household consumption is assumed to have grown 2.6 per cent in 2014 and is expected to rise a further 3.4 per cent in 2015 and 3.5 per cent in 2016 (Chart 3Q). Some of the additional nominal household consumption growth is the result of an increase in purchasing power assumed to result from lower world oil prices. In 2015, lower energy prices are expected to weigh down consumer price growth and retail sales. Retail sales are expected to slow from 2.2 per cent growth in 2014 to just 1.0 per cent in 2015, while inflation slows to 0.7 per cent.

Chart 3Q Nova Scotia Household Consumption and Price Outlook

Source: Statistcs Canada CANSIM tables 080-0020, 326,-0021, 384-0038 and Department of Finance and Treasury Board forecast

As noted above, Nova Scotia's residential construction investments ended their post-recession period of growth. Residential construction spending is expected to have fallen by 11.1 per cent in 2014 (Chart 3R). Although residential investments are expected to grow in 2015 and 2016, this is insufficient to return them to their previous peak. Non-residential investments are assumed to have declined slightly in 2014 as Halifax commercial construction projects declined from the 2013 peak. However, major projects are expected to drive non-residential investment growth in 2015 up to 7.5 per cent, with further growth of 1.0 per cent in 2016.

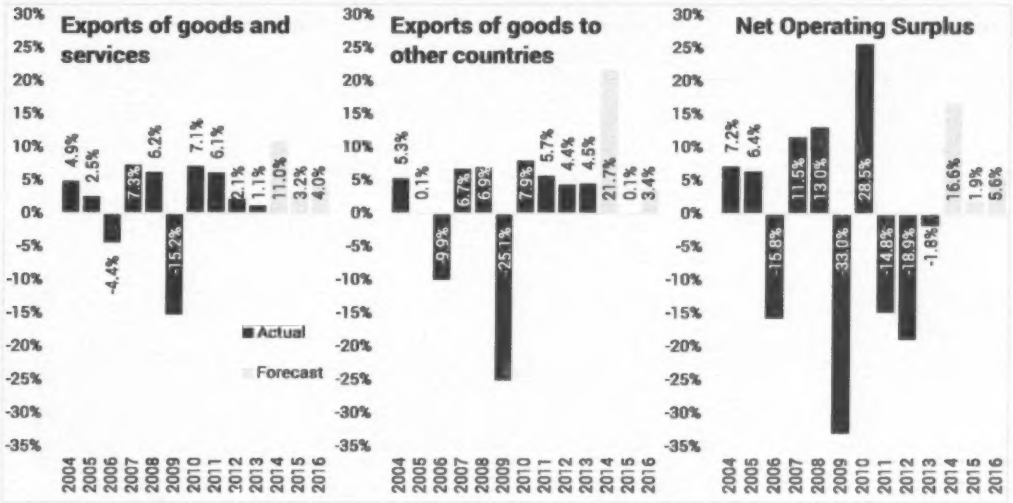
Chart 3R Nova Scotia Investment Outlook



Source: Statistics Canada, CANSIM table 384-0038 and Department of Finance and Treasury Board forecast

Rising exports of natural gas as well as non-energy commodities were the main drivers of growth for Nova Scotia in 2014. In 2015, natural gas output is expected to decline from peak production, largely offsetting growth in non-energy sectors. As volatility in international exports is more strongly associated with corporate income (as opposed to employee compensation), Nova Scotia's strong export performance is expected to contribute to a 16.6 per cent rise in corporate net operating surplus. As export growth moderates in the outlook for 2015 and 2016, so too does corporate net operating surplus (Chart 3S).

Chart 3S Nova Scotia Export and Corporate Income Outlook



Source: Statistics Canada, CANSIM tables 384-0037, 384-0038 and Department of Finance and Treasury Board forecast

Table 3D presents a summary of the Nova Scotia economic outlook. This outlook is used in preparing revenue estimates. Table 3E presents an average of forecasts for Nova Scotia prepared by economists at banks and think tanks.

The estimated economic growth for 2014 is consistent with the average of private sector forecasters. In 2015 and 2016 the forecast for economic growth is below the average prediction of private sector forecasters, on both a real and nominal GDP basis. The forecast also expects slower employment growth than the average private sector outlook for each of the next two years. The similarity in expectations for unemployment rates suggests that private sector forecasters assume stronger labour force growth.

Table 3D Nova Scotia Economic Forecast

(Per cent change, except where noted)

	2014	2015	2016
Real GDP ($2007 chained)	1.6%	1.7%	1.5%
Nominal GDP	3.6%	2.7%	3.4%
Compensation of Employees	3.0%	3.4%	3.6%
Household Final Consumption	2.6%	3.4%	3.5%
Retail Sales	2.2%	1.0%	2.7%
Consumer Price Index	1.7%[a]	0.7%	2.3%
Investment in Residential Structures	-11.1%	3.4%	2.9%
Net Operating Surplus: Corporations	16.6%	1.9%	5.6%
Exports of Goods to Other Countries	21.7%	0.1%	3.4%
Population at July 1 (thousands)	942.7[a]	943.7	944.5
Employment (thousands)	447.6[a]	450.1	452.2
Unemployment Rate, Annual Average	9.0%[a]	8.5%	7.9%

The Nova Scotia economic forecast contains data and information up to and including February 12, 2015.
a ~ actual (forecast growth rates apply to actuals as known by February 12, 2015)

Table 3E Private Sector Forecasters' Outlook for Nova Scotia

	2014	2015	2016
Real GDP ($2007 chained)	1.5%	2.1%	2.1%
Maximum of private sector forecasters	*2.2%*	*2.3%*	*2.3%*
Minimum of private sector forecasters	*0.7%*	*1.6%*	*1.7%*
Nominal GDP*	3.5%	3.0%	3.9%
Retail Sales*		2.7%	3.6%
Consumer Price Index		0.7%	2.3%
Employment		1.0%	0.9%
Unemployment Rate		8.5%	8.2%

As published by February 12, 2015
*Only a limited number of forecasters publish an outlook for nominal GDP and for retail sales

Risks to the Economic Forecast

The Nova Scotia Budget economic assumptions constitute a forward-looking assessment of economic conditions and prospects for the province, based on external data and information up to February 12, 2015, and departmental expenditure plans up to March 30, 2015. As new data and information is revealed subsequent to February 12, 2015, the results of the forecast are subject to change. Any new information and deviations from Budget economic assumptions will be incorporated into subsequent forecasts and published in future updates.

Instability in the global environment is typically a downside risk. As in previous years, continued uncertainty about the euro area and political instability in Eastern Europe could drive appreciation of the Canadian dollar. However, with a strong US economy, it is more likely that safe haven investments will flow to the world's traditional reserve currency. If the euro area stabilizes and renews growth under the European Central Bank's quantitative easing program, there may be upside potential for Nova Scotia—particularly in the medium term if the Canada-Europe Comprehensive Economic and Trade Agreement offers substantial opportunities.

The downward pressure on the Canadian currency from falling oil prices has masked any upward movement in the foreign exchange rate as many of the world's major monetary authorities pursue substantial quantitative easing (though US easing has tapered) while the Bank of Canada relies largely on conventional monetary instruments. It is possible that unexpected slowdowns in US or emerging market economies could renew upward pressure on the Canadian dollar and erode international net exports.

Falling global oil prices and lower demand for "safe haven" investments in Canadian financial assets are contributing to a lower foreign exchange rate, which offers benefits to Nova Scotia exporters. Any of these conditions could reverse and lead to higher-than-expected exchange rates.

There are substantial uncertainties about the impacts to Nova Scotia from the recent decline in crude oil prices. Much of the downside risk appears to be concentrated among net oil producers, and Nova Scotia's exploration projects are continuing as planned.

It appears that Nova Scotia households will likely benefit from greater purchasing power as a result of lower oil prices. However, it is not clear that households will increase their expenditures on other goods and services that generate income within the province. Likewise, the correlation between the oil price and foreign exchange rate may result in some of the benefits of lower oil prices being lost to erosion of the value of the Canadian dollar. In this environment of uncertainty, there may still be upside risks if lower oil prices help the competitiveness of Nova Scotia firms or boost tourism spending.

There is little evidence of the extent to which Nova Scotia resident workers travelled in recent years to work on oil and gas investments in Western Canada. As these investment projects are curtailed in a low price environment, there is a risk of decline in income remitted to Nova Scotia households from work on western oil projects. Likewise, if workers return from these projects, they could elevate the unemployment rate and depress wage growth. However, this possibility may offer the benefit of a more robust labour supply available for major projects in the province.

The Department of Finance and Treasury Board only incorporates the impact of major non-residential investment projects in the province when their details are known and certain. This forecast includes provision for added growth resulting from upgrades and vessel construction at the Halifax Shipyard (starting later in 2015), re-decking the Macdonald Bridge, construction of a new jetty at the Halifax dockyard, construction of the Nova Centre, offshore exploration activities, construction of the Maritime Link, and a number of wind energy projects. There are also downside adjustments to reflect lower tire production and refinery capacity. There are still a number of major projects under consideration for Nova Scotia that are not incorporated in any way into the current outlook; should these projects materialize, they represent an upside risk to the forecast.

The ability of the provincial economy to respond to its own major project investments depends on the extent to which the work is performed by local firms and the capacity of the labour force to undertake them. As has been noted in previous economic assumption statements, the demographic outlook depends on reversal of the historical trend of net out-migration. Without sufficient labour supply to meet major project needs, the impact of these projects may be different than anticipated in this outlook. In the short run, this risk may be obviated by workers returning from western oil projects.

Over the longer term, the impacts of demographic changes on Nova Scotia's potential GDP could constitute a barrier to growth. This demographically driven barrier may be overcome through capital accumulation, resource development, trade, and productivity—but this requires changes to the business practices of Nova Scotia firms.

There are further risks to the domestic economic situation in Nova Scotia from fiscal plans and natural gas production.

In 2012, 2013, and 2014, there were substantial reductions in federal government and military activities in Nova Scotia. Although previous forecasts made provisions for it, the true extent of this fiscal drag was only revealed in hindsight. With federal austerity plans largely implemented, this risk may be abated—unless lower oil prices prompt additional expenditure cuts in upcoming budgets.

Nova Scotia's economic output is sensitive to the performance of its natural gas fields. Nova Scotia's strong export performance in 2014 was partially driven by natural gas production from the Deep Panuke field. This offshore facility has announced lower reserve levels in light of water issues in the production process. The current economic forecast assumes lower natural gas production. However, if the production declines faster than anticipated it could result in a drag on growth.

As noted in the 2013–2014 and 2014–2015 Budget assumptions, Statistics Canada has restructured the provincial income and expenditure accounts of GDP. With the release of full historical information reported under the new structure, the Department of Finance and Treasury Board has re-built several parts of its forecasting model. Although these new forecasting tools performed well in a testing environment, they are new and may constitute a level of uncertainty about the forecast.

Economic Forecasting Process

Section 56(3)(b) of the Finance Act requires the Minister of Finance to present the major economic assumptions made in preparing the fiscal plan. The Nova Scotia Department of Finance and Treasury Board prepares economic forecasts as part of the fiscal planning process. The provincial forecast results are generated in Statistics Canada's revised income and expenditure account format (SNA2012).

Economic forecasts help inform the Minister of Finance and Treasury Board of the potential size of tax bases. The economic forecast also provides the Minister and the Treasury Board with context on the size of government expenditures relative to the entire value of production in the province. Nominal GDP growth is the broadest indicator of the size of the tax base and of the dollar value of production in the province. However, it is generally the sub-components of nominal GDP that are directly incorporated into the Budget revenue forecast.

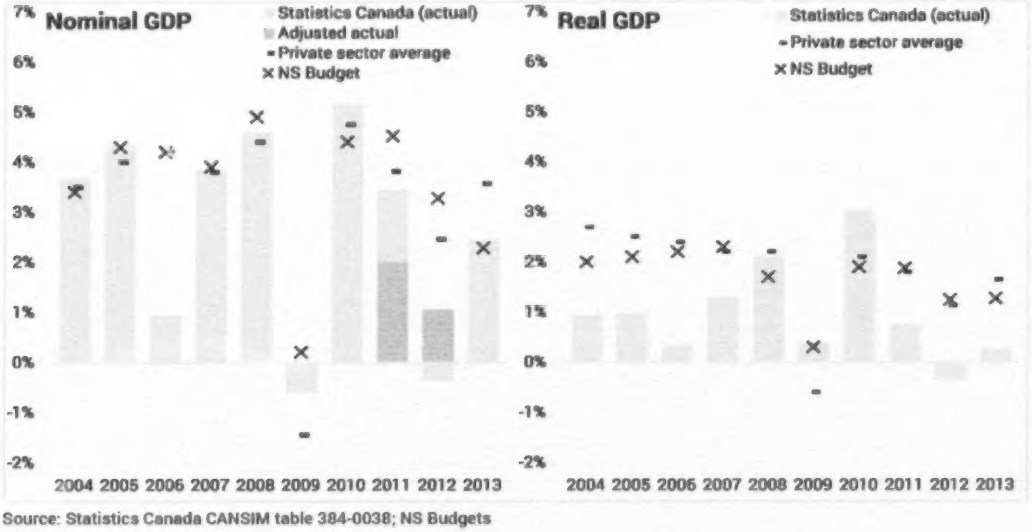
The Department of Finance and Treasury Board uses a proprietary econometric forecasting model to project the key indicators of Nova Scotia's economy. The model builds future projections on historical trends as well as a number of external assumptions about global conditions that affect the performance of Nova Scotia's economy.

The demographic and economic outlooks presented in this document are based on data and information available up to February 12, 2015. This leads to a forecast prepared, reviewed, and approved for use in fiscal planning as of April 8, 2015. Nevertheless, unforeseen and unforeseeable events will undermine the accuracy of any forward-looking statement such as an economic forecast, and the results of the provincial economic forecast are only intended to provide a reasonable basis for fiscal planning. In recent years, this has included events such as closure of major industrial facilities, unanticipated slowdowns in natural gas production, and federal government austerity.

Economic forecasting is also vulnerable to historical data revisions. In 2011, the provincial government undertook a $536 million payment to the public service pension plan. This was recorded as a one-time contribution to employee compensation that was not repeated in 2012. As a result, growth in nominal GDP in 2011 was artificially inflated by this one-time payment while growth in 2012 was artificially depressed by the absence of this payment (there were no impacts on real GDP from this transaction). An adjusted series of nominal GDP growth shows that forecasts actually overstated growth more in 2011 than in 2012 (Chart 3T).

In the process of generating an economic forecast, staff identify conditions that are expected to deviate from historical trends and make appropriate adjustments to reflect these events. This exercise of professional judgment is documented and disclosed to decision-makers prior to releasing the economic forecast.

Chart 3T Nova Scotia Forecast Performance



Source: Statistics Canada CANSIM table 384-0038; NS Budgets

The Department of Finance and Treasury Board conducts challenge and review sessions to validate the economic forecast. Before using economic assumptions and forecasts for budget planning, the Department of Finance and Treasury Board presents them to members of the academic community and leading private-sector forecasters. These experts evaluate whether the exogenous assumptions and resulting economic forecasts form a reasonable and internally coherent basis for fiscal planning. Department staff note any challenges to the economic forecast and determine whether further adjustments are necessary. Senior management of the Department of Finance and Treasury Board participate in challenge sessions, so that they can hear credible, objective advice on whether the economic forecast is a reasonable basis for fiscal planning.

After the economic forecast has been challenged, reviewed, and approved, it is shared with the Office of the Auditor General (OAG) for further review as part of the OAG's review of revenue estimates. In addition to scrutinizing the reasonableness of the forecast itself, the OAG ensures that the economic forecast reflects consistent process, full disclosure of assumptions, professional judgment, and appropriate approvals. The OAG's review of economic forecasts is a unique procedure in Canada, providing an additional layer of transparency in the budget process.

Schedule 3E Nova Scotia Economic Performance and Outlook, Key Indicators

	ACTUAL				
	2009	2010	2011*	2012	2013
Gross domestic product at market prices ($millions current)	35,254	37,073	38,349	38,214	39,145
(% change)	*-0.6%*	*5.2%*	*3.4%*	*-0.4%*	*2.4%*
Gross domestic product at market prices ($2007, chained millions)	34,753	35,806	36,073	35,950	36,042
(% change)	*0.4%*	*3.0%*	*0.7%*	*-0.3%*	*0.3%*
Compensation of employees ($millions current)	18,905	19,424	20,564	20,397	20,810
(% change)	*2.7%*	*2.7%*	*5.9%*	*-0.8%*	*2.0%*
Household income ($millions current)	31,845	32,740	34,304	34,576	35,318
(% change)	*1.6%*	*2.8%*	*4.8%*	*0.8%*	*2.1%*
Household final consumption expenditure ($millions current)	23,774	24,894	25,990	26,586	27,457
(% change)	*1.6%*	*4.7%*	*4.4%*	*2.3%*	*3.3%*
Retail sales ($millions current)	12,105	12,651	13,098	13,223	13,605
(% change)	*0.1%*	*4.5%*	*3.5%*	*1.0%*	*2.9%*
Consumer Price Index (all-items, Index 2002=100)	115.7	118.2	122.7	125.1	126.6
(% change)	*-0.2%*	*2.2%*	*3.8%*	*2.0%*	*1.2%*
Business gross fixed capital formation: residential ($millions current)	2,247	2,521	2,578	2,733	2,787
(% change)	*-5.9%*	*12.2%*	*2.3%*	*6.0%*	*2.0%*
Business gross fixed capital formation: non-res., M&E ($millions current)	3,035	3,588	3,392	2,494	2,751
(% change)	*20.2%*	*18.2%*	*-5.5%*	*-26.5%*	*10.3%*
Net operating surplus: corporations ($millions current)	2,574	3,307	2,817	2,284	2,243
(% change)	*-33.0%*	*28.5%*	*-14.8%*	*-18.9%*	*-1.8%*
Exports of goods and services ($millions current)	13,691	14,661	15,560	15,894	16,068
(% change)	*-15.2%*	*7.1%*	*6.1%*	*2.1%*	*1.1%*
Exports of goods to other countries ($millions current)	5,062	5,462	5,771	6,026	6,300
(% change)	*-25.1%*	*7.9%*	*5.7%*	*4.4%*	*4.5%*
Imports of goods and services ($millions current)	21,607	23,327	25,260	25,135	25,919
(% change)	*-4.8%*	*8.0%*	*8.3%*	*-0.5%*	*3.1%*
Population (all ages, 000s July 1)	938.2	942.1	944.5	944.8	942.9
(% change)	*0.2%*	*0.4%*	*0.3%*	*0.0%*	*-0.2%*
Population (ages 18–64, 000s July 1)	615.3	618.1	618.9	615.3	609.7
(% change)	*0.3%*	*0.5%*	*0.1%*	*-0.6%*	*-0.9%*
Labour Force (000s)	495.2	499.1	497.9	503.5	497.7
(% change)	*1.3%*	*0.8%*	*-0.2%*	*1.1%*	*-1.2%*
Participation rate (%)	64.2%	64.3%	63.9%	64.4%	63.7%
(change)	*0.5%*	*0.1%*	*-0.4%*	*0.5%*	*-0.7%*
Employment (000s)	449.5	451.3	453	457.6	452.6
(% change)	*-0.5%*	*0.4%*	*0.4%*	*1.0%*	*-1.1%*
Employment rate (%)	58.3%	58.2%	58.1%	58.5%	57.9%
(change)	*-0.6%*	*-0.1%*	*0.0%*	*0.4%*	*-0.7%*
Unemployment rate (%)	9.2%	9.6%	9.0%	9.1%	9.1%
(change)	*1.6%*	*0.4%*	*-0.6%*	*0.1%*	*0.0%*

**Results for 2011 include $536 million pension payment, directly affecting nominal GDP, compensation of employees and household income*

Schedule 3E Nova Scotia Economic Performance and Outlook, Key Indicators

Nova Scotia Economic Performance and Outlook, Key Indicators	FORECAST			ANNUAL AVERAGE	
	2014	2015	2016	2009-13	2013-16
Gross domestic product at market prices ($millions current)	40,548	41,646	43,047		
(% change)	*3.6%*	*2.7%*	*3.4%*	*2.7%*	*3.2%*
Gross domestic product at market prices ($2007, chained millions)	36,601	37,221	37,793		
(% change)	*1.6%*	*1.7%*	*1.5%*	*0.9%*	*1.6%*
Compensation of employees ($millions current)	21,433	22,163	22,956		
(% change)	*3.0%*	*3.4%*	*3.6%*	*2.4%*	*3.3%*
Household income ($millions current)	36,100	37,085	38,248		
(% change)	*2.2%*	*2.7%*	*3.1%*	*2.6%*	*2.7%*
Household final consumption expenditure ($millions current)	28,174	29,130	30,143		
(% change)	*2.6%*	*3.4%*	*3.5%*	*3.7%*	*3.2%*
Retail sales ($millions current)	13,904	14,043	14,423		
(% change)	*2.2%*	*1.0%*	*2.7%*	*3.0%*	*2.0%*
Consumer Price Index (all-items, Index 2002=100)	128.8	129.7	132.7		
(% change)	*1.7%*	*0.7%*	*2.3%*	*2.3%*	*1.6%*
Business gross fixed capital formation: residential ($millions current)	2,478	2,561	2,635		
(% change)	*-11.1%*	*3.4%*	*2.9%*	*5.5%*	*-1.8%*
Business gross fixed capital formation: non-res., M&E ($millions current)	2,711	2,915	2,944		
(% change)	*-1.4%*	*7.5%*	*1.0%*	*-2.4%*	*2.3%*
Net operating surplus: corporations ($millions current)	2,616	2,665	2,815		
(% change)	*16.6%*	*1.9%*	*5.6%*	*-3.4%*	*7.9%*
Exports of goods and services ($millions current)	17,831	18,406	19,143		
(% change)	*11.0%*	*3.2%*	*4.0%*	*4.1%*	*6.0%*
Exports of goods to other countries ($millions current)	7,670	7,674	7,938		
(% change)	*21.7%*	*0.1%*	*3.4%*	*5.6%*	*8.0%*
Imports of goods and services ($millions current)	26,866	27,840	28,679		
(% change)	*3.7%*	*3.6%*	*3.0%*	*4.7%*	*3.4%*
Population (all ages, 000s July 1)	942.7	943.7	944.5		
(% change)	*0.0%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*
Population (ages 18–64, 000s July 1)	606.1	604.0	601.0		
(% change)	*-0.6%*	*-0.3%*	*-0.5%*	*-0.2%*	*-0.5%*
Labour Force (000s)	491.6	491.9	491.1		
(% change)	*-1.2%*	*0.1%*	*-0.2%*	*0.1%*	*-0.4%*
Participation rate (%)	62.8%	62.7%	62.5%	‡64.1%	‡62.9%
(change)	*-0.9%*	*-0.1%*	*-0.2%*		
Employment (000s)	447.6	450.1	452.2		
(% change)	*-1.1%*	*0.6%*	*0.5%*	*0.2%*	*0.0%*
Employment rate (%)	57.2%	57.4%	57.5%	‡58.2%	‡57.5%
(change)	*-0.7%*	*0.2%*	*0.2%*		
Unemployment rate (%)	9.0%	8.5%	7.9%	‡9.2%	‡8.6%
(change)	*-0.1%*	*-0.5%*	*-0.6%*		

‡Average level over period, not average change